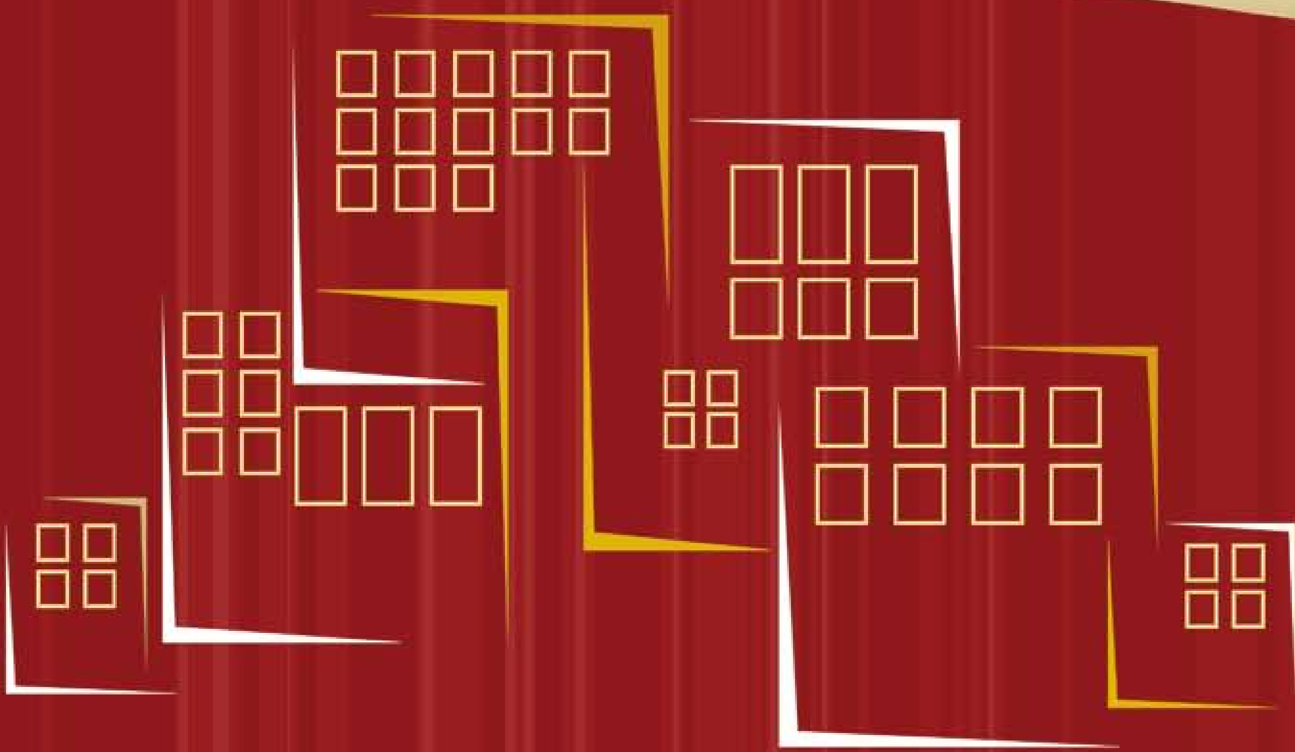
Multifamily Market Forecast

2012 Report



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2012 Multifamily Market Forecast

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2012 Multifamily Market Report

The Casden Real Estate Economics Forecast is pleased to present its 2012 report on the Southern California multifamily real estate markets. The Casden Real Estate Economics Forecast is dedicated to analyzing fundamental trends and forecasting real estate market activity in Southern California. The Forecast issues two annual reports: one covering the region's office and industrial markets and the other covering apartment markets. These reports summarize developments in the region's real estate markets during the past year and provide insights as to what might be expected in the near future.

As in previous years, the report first gives an overview of the United States and regional economies, which serve as the foundation for the analysis of the Southern California real estate markets. A comprehensive summary of the fundamental trends in the multifamily markets for Los Angeles County, Orange County, the Inland Empire and San Diego County as well as individual submarkets makes up the main body of the report. The statistical snapshots provide concise summaries of recent movements in quarterly rents, vacancy rates, and net absorption for each county and its submarkets. At the end of the report, we present our two-year forecast for rents and vacancy rates in each of the four metro markets. For the second time in the report's history, we are including statistical confidence bounds on all of our predictions.

A report of this magnitude is only possible through the contributions from many individuals. We thank Skye Tirsbier for her outstanding research assistance and Marilyn Ellis for her help in laying out the report. We are also grateful to the Lusk Center staff for their assistance, especially Jennifer Frappier, and Sonia Savoulian. Finally, we gratefully acknowledge our sponsors: MPF Research (who also provided the apartment market data), Chandler Partners, City National Bank, Forest City, Goodwin Procter, Heffernan Insurance Brokers, L.A. Downtown News, Newport Investment Associates, NNC Apartment Ventures, and PNC.

Executive Summary

Although the economy still has a long way to go to fully recover from the financial crisis and crushing economic slowdown of 2008-2009, 2011 was a very good year for Southern California apartment demand, with positive net absorption and increased occupancy rates for all four metro areas. Los Angeles County and San Diego both experienced higher levels of net absorption than in 2010, while Orange County and the Inland Empire were unable to repeat their 2010 performances. All four metro markets have returned to vacancy rates that are very close to their "natural" levels – the level at which inflation-adjusted rents remain constant -- and exceeded the overall occupancy rate for the US as a whole (94.6 percent). Only the Inland Empire fell short of the occupancy rate in the West region (95.2 percent).

Southern California rents also rose across the board, both on an average and same-store basis. To go along with a remarkable 22,340 net move-ins (nearly quadruple the number from 2010), average rents in LA jumped 6.2 percent, the most of any metro area. Orange County reported the largest increase in same-store rents, with an increase of 4.9 percent, and the weakest performance in average rents, with an increase of only 3.2 percent. Overall, the Southern California region fell short of the same-store rent growth experienced in both the US as a whole (4.7 percent) and the West region (5.2 percent).

Thirty-nine out of 40 submarkets in Southern California saw positive rent growth on an average and same-store basis. This is a vast change from two years earlier, in which only three submarkets reported rising average rents. Between a sharp drop in new construction, a dwindling supply of shadow-market units, a migration of households from shadow-market to "traditional" multifamily units, and improvements in the macroeconomy, we are observing a continued strengthening in fundamentals on both the supply and demand side, which is serving to boost asking rents, reduce or eliminate concessions, and fill units.

We forecast continued rising rents for all four metro areas over the next two years, and believe that the growth rate will be slower in 2013 than in 2012. We expect LA to record the strongest performance among the metro areas, followed by Orange County, San Diego, and the Inland Empire.

Los Angeles County

The Los Angeles apartment market showed a substantial improvement in both rents and occupancy from 2010; all eleven submarkets recorded positive growth in rents and all eleven submarkets experienced positive net absorption. The strong performance in the rental market came in spite of only modest improvements in the local labor market: only 19,000 nonfarm jobs were added in 2011. The greatest gains came in the Professional and Business Services, Educational and Health Services, and Leisure and Hospitality sectors. The largest losses came in Local Government, Manufacturing, and the Arts, Entertainment, and Recreation sectors. The unemployment rate ended the year at 11.6 percent, down from 12.4 percent in December 2010.

West Los Angeles showed the largest increase in average rents (11.5 percent), followed by Hollywood (8.1 percent) and the Tri-Cities submarket (6.3 percent). West Los Angeles also posted the largest gain in same-store rents at 7.1 percent. Though still positive, the East Los Angeles submarket showed the weakest performance, with a rise in same-store rents of only 0.7 percent. As of Q4 2011, average rents for the county are off only 1.1 percent from their Q2 2008 peak. The average monthly rent for an average-sized unit was $1596, or $1.86 per square foot. Average rents for Los Angeles county were up 6.2 percent for 2011.

For the third year in a row, Los Angeles County recorded an increase in apartment demand, with 22,340 net move-ins. This figure was on par with 2009 and nearly quadruple the net move-ins of 2010. All eleven submarkets recorded positive net absorption for 2011. Intown Los Angeles and Santa Clarita Valley reported the largest relative gains in demand, with 4340 and 750 net move-ins, respectively. The overall occupancy rate rose 1.9 percentage points to 96 percent.

New units were delivered in all submarkets except The Santa Clarita and Antelope Valleys. Completions for 2012 are expected to fall just short of 2011 figures. Two-thirds of the anticipated 2,375 completions will come on-line in the Hollywood, West Los Angeles, and San Fernando Valley submarkets.

Orange County

Following a gain of 6,500 nonfarm jobs in 2010, Orange County witnessed the creation of an additional 15,600 nonfarm jobs in 2011. The largest gains came in the Professional and Business Services, Leisure and Hospitality, and Trade, Transportation, and Utilities sectors, while the largest losses came in the Financial Activities, Construction, and Educational Services sectors. The unemployment rate in December 2010 was 7.8 percent, down from 9.0 percent a year earlier.

Although demand for apartments increased for the third year in a row, Orange County recorded only half as many net move-ins in 2011 as in 2010 (2290 versus 5830). Occupancy increased 0.9 percentage points during 2011, bringing the overall rate to 95.8 percent.

Average rents increased by 3.2 percent, while same-store rents increased by 4.9 percent. The average monthly rent for the county at the end of 2011 was $1,523, or $1.72 per square foot. The submarkets with the strongest growth in average rents were Santa Ana and South Orange County, which both logged growth of 5.0 percent. The Irvine area recorded the highest growth in same-store rents at 7.2 percent.

After adding 3,187 new units in 2010, new deliveries dropped precipitously in 2011: only 263 new units were delivered across four submarkets. Completions are expected to bounce back again in 2012, with 2,883 anticipated deliveries. A staggering 97 percent of these completions will go on-line in the Irvine submarket. The remaining three percent are being constructed in Anaheim.

Inland Empire

The multifamily housing markets in the Inland Empire, which were severely affected by the recession, began to see some improvement in 2011. This improvement was likely spurred, in part, by an improvement in the local labor markets. Although Riverside and San Bernardino still maintain the highest unemployment rates among the Southern California counties, at 12.5 and 11.9 percent, respectively, they are down significantly from a year earlier. Furthermore, the Riverside County unemployment rate is only three-tenths of a percent above that of Los Angeles County. The two-county combined area saw the creation of 8,200 nonfarm jobs in 2011, with the largest gains coming in the Leisure and Hospitality, Education and Health, and Professional and Business Services sectors. The largest losses came in the Financial Activities, Construction, and Local Government sectors.

As in Orange County, demand for apartments in the Inland Empire increased during 2011, but fell well short of 2010 levels. The region ended the year with 1,960 net move-ins, down 54 percent from the prior year. Southwest Riverside logged the strongest relative increase in demand, with 560 net move-ins. The Outer Riverside and San Bernardino submarket showed the weakest demand for the second year in a row, and was the only submarket to experience net move-outs for 2011 (250).

Average effective rents increased by 3.4 percent, while same-store rents increased by 2.8 percent. At the end of 2011, the average monthly rent stood at $1,069, or $1.22 per square foot. The Riverside/Corona submarket logged the highest average rent growth at 5.8 percent. The Foothill area experienced the strongest same-store rent growth at 3.8 percent. The Inland Empire's Outer Riverside/San Bernardino submarket was the only submarket in all of Southern California to report a decline in either average or same-store rents; average rents fell 6.8 percents, while same-store rents fell 0.4 percent.

Again, like Orange County, completions dropped substantially from 2010. After adding 2,068 units in 2010, the metro area received only 657 new deliveries in 2011. But unlike Orange County, completions are expected to remain low in 2012. Just 450 new units are anticipated for completion across three submarkets: Southwest Riverside County, the Foothill area and the Coachella Valley.

San Diego County

The unemployment rate fell to 8.9 percent from 10.1 percent during 2011, maintaining San Diego's position of having the second-lowest unemployment rate among Southern California Counties. After witnessing the creation of 5,200 jobs in 2010, the County gained another 11,700 in 2011. The Educational and Health Services, Professional and Business Services, and Leisure and Hospitality sectors experienced the largest job gains, while the Local Government, Manufacturing, and Financial Activities sectors posted the biggest losses.

San Diego County experienced positive demand for apartments for the third year in a row, logging 4,070 net move-ins. This figure represents an increase of 19 percent over the 2010 level of net absorption.

Average rents grew by 4.3 percent to $1.59 per square foot. At the end of 2011, average monthly rents stood at $1,377. Same-store rents rose by 2.8 percent. The strongest average rent increases were posted in the Intown/Coronado and West San Diego submarkets (10.4 percent and 6.8 percent, respectively). West San Diego also posted the strongest gain in same-store rents, with a 5.5 percent increase.

Completions logged in at 407 for 2011, down nearly 85 percent from 2010. Intown/Coronado, Chula Vista/Imperial Beach, and Escondido were the only submarkets to receive new units. The pace of construction is expected to pick up in 2012, with anticipated deliveries of 1,583 new units across six different submarkets. The Chula Vista/Imperial Beach submarket, with 9.8 percent of the county's total apartment stock, is expected to receive about 40 percent of the new units.

Current View of the Economy

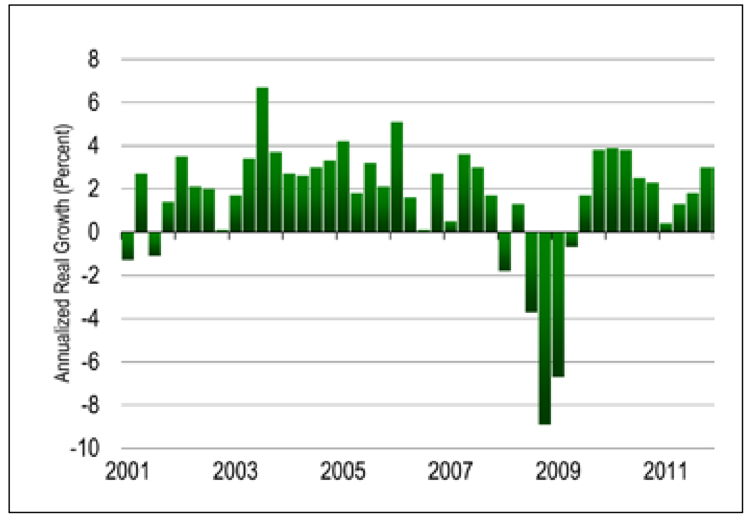
The US economy appears to have turned a corner in 2011. Most of the major macroeconomic indicators – including GDP, unemployment, and consumer spending – moved in a direction indicating sustained recovery for the first time. Nevertheless, the country is still a long way off from pre-recession levels of economic health.

The fourth quarter of 2011 marked the tenth straight quarter of positive annualized growth in Gross Domestic Product. Meanwhile, corporate America continued its climb out of the recessionary period. After posting an increase of 32.2 percent in 2010, profits increased another 7.9 percent in 2011. Unlike previous years, firms are putting these profits towards significant amounts of hiring on a national level.

Job creation was strong throughout 2011 and has picked up even more steam in the first months of 2012. Unfortunately, Southern California has not been as big a beneficiary of the nationwide job creation as one would expect, given its share of the nation's entire employment base. In fact, in the first two months of 2012, in which the US has gained more than 500,000 nonfarm jobs, the five counties discussed in this report has seen losses of nearly 25,000 jobs. In the case of Southern California, the rising tide is not raising all boats. The national unemployment rate, as of this writing, stands at 8.3 percent, down from the high of 10 percent reached in October 2009. Still, the US economy has about 6 million fewer jobs since employment peaked in the fourth quarter of 2007. The state unemployment rate for California remains the second-highest in the nation, at 10.9 percent.

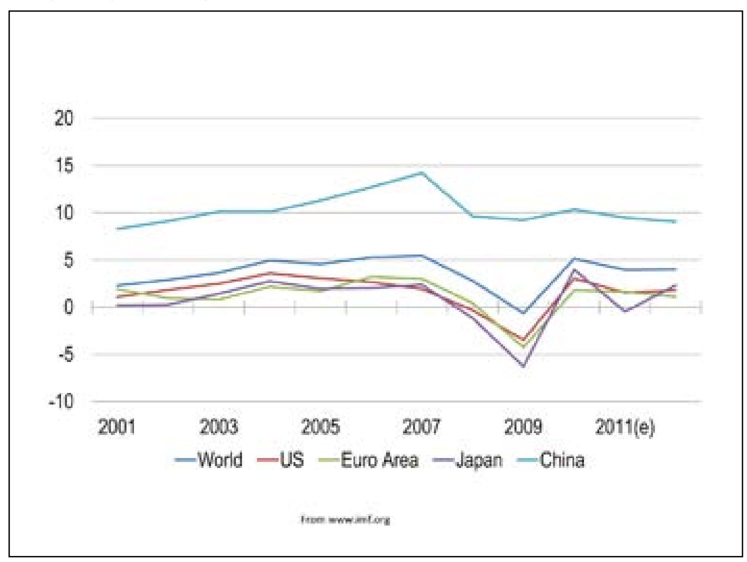
In February, the Philadelphia Federal Reserve Bank Survey of Professional Forecasters released its latest macroeconomic outlook, which projected more pessimistic GDP growth for 2012 and more optimistic labor market growth than in its 2011 forecasts. The survey predicts 3.0 annualized GDP growth for 2012 and an 8.1 percent national unemployment rate by the end of this year. The survey also projects average employment growth of about 150,000 to 155,000 jobs per month. Headline inflation is expected to remain at or below 2.2 percent. This should keep pressure off of interest rates, but it will mean that the real value of debt carried by real estate will remain high.

GDP Growth



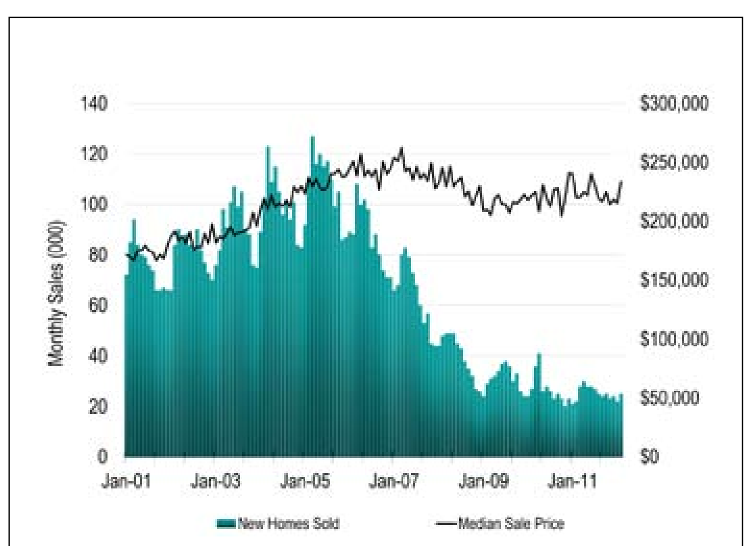
Source: Bureau of Economic Analysis

GDP Growth Comparison



Source: International Monetary Fund

New Home Sales

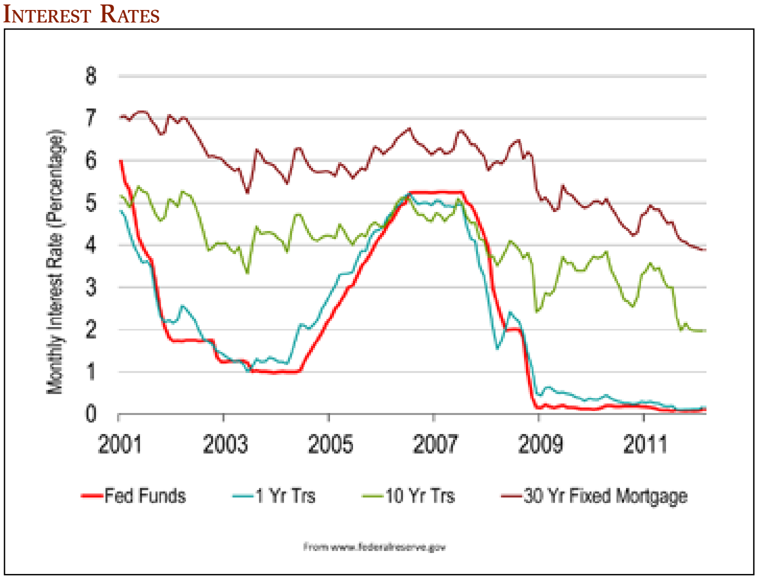


Source: U.S. Census Bureau

Stock and Bond Prices

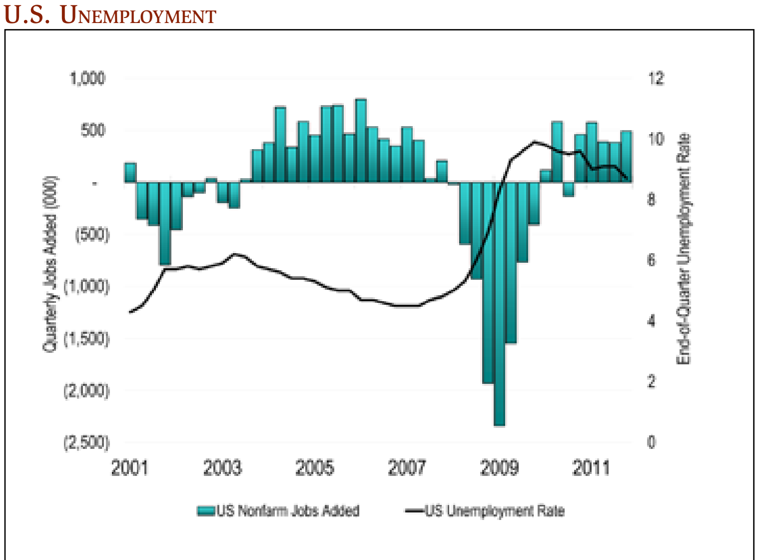
Source: Google Finance

Interest Rates



Source: Federal Reserve

U.S. Unemployment



Source: Bureau of Labor Statistics

Adding to the sentiments of recovery has been the performance of the US stock market. In 2012, the Dow and S&P 500 had their best first quarter performance since 1998, while the Nasdaq recorded its best first quarter performance since 1991. The S&P 500 was up 10.25 percent for the first quarter of 2012, and has gained more than 35 percent in total since July of 2011. The strong performance of the US stock indices is believed to be attributable to the collective efforts of the European Union (EU), IMF, and European Central Bank (ECB) to resolve the Greek debt crisis. In February 2012, the three organizations agreed to offer a second bailout package (which included a massive debt restructuring) in exchange for additional austerity requirements. In what became the world's largest debt restructuring deal ever done, Greek bond holders agreed to a 53.5 percent write-down, a lowering of interest rates, and extensions on bond maturities. The Greek debt level ultimately fell by 107 billion Euro, to 117 percent of the country's GDP. Although the EU, IMF, and ECB encouraged bondholders to accept the restructuring as "voluntary", the International Swaps and Derivatives Association deemed the restructuring a "credit event" which would trigger payouts on credit default swaps. The ultimate effect of these actions was 1) a resolution of much of the uncertainty hanging over European (and ultimately, world) financial markets, due to the large quantity of outstanding Greek government bonds and 2) a reassurance of the validity of financial contracting.

The final sign pointing toward economic recovery is a loosening of credit markets. During 2011, US-chartered commercial banks and foreign banking offices in the US combined for nearly $200 billion in net lending, up from $215 billion in net borrowing in 2010 and over $400 billion of net borrowing in 2009.

One of the largest obstacles to recovery, at the moment, may be the continuation of high oil prices.

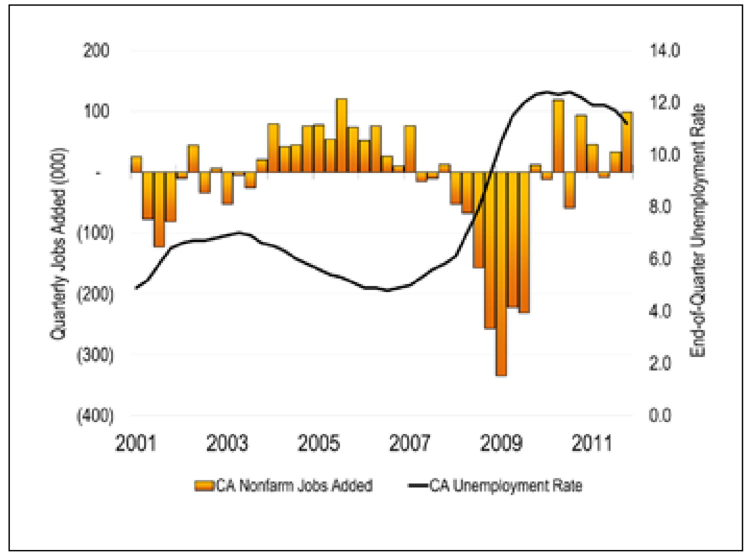
West Texas Crude, which began 2011 at about $92 per barrel, currently stands at $106 per barrel. While this figure is still $40 per barrel below the peak that occurred in the summer of 2008, the ongoing turmoil in the Middle East suggests that oil prices will remain high for the foreseeable future. At the moment, there is concern that Iran will attempt to close the Strait of Hormuz, the exit point of the Persian Gulf through which 20 percent of the world's oil supply (and 35 percent of all ocean-bound oil) passes, if the US and Great Britain follow through with threats to impose sanctions on Iranian oil exports. A flotilla of US, British, and French warships is positioned in the Gulf to prevent the closure of the Strait, but thus far, Iran has not made any decisive moves.

California currently has the second-highest gas prices in the nation, at $4.33 per gallon. The national average stands at $3.83 per gallon, up 17 percent since the start of 2012. Economists believe that every 25 cents of increase in gasoline prices lead to a reduction in economic growth of roughly 0.2 percentage points. The increase in the price of oil will no doubt impact the real estate industry, raising construction costs and reducing the attractiveness of properties in the outlying areas of major metro markets.

Over the last two years, the Federal Government has responded to the absence of strong growth with extraordinary monetary policy. In early 2011, the Federal Reserve began purchasing long-term Treasuries in the hope of lowering interest rates. At the time "Quantitative Easing II" (QE2) was initiated, the 10-year Treasury rate was below three percent. Most recently, the Federal Reserve announced the implementation of "Operation Twist", a plan to lower long-term interest rates even further without printing additional money by re-balancing the Fed's existing Treasury portfolio towards longer-term maturity bonds. The 10-year Treasury rate hit a high of 3.75 percent in mid-February of 2011 but has since dropped back to 2.21 percent as of this writing. This figure is 34 basis points off from the record low set around the time of the announcement of Operation Twist, in late September 2011. In regards to interest rates, perhaps even more important is the fact that the 30-year fixed rate conforming mortgage spread over 10-year Treasuries has remained narrow and interest rates on 30-year fixed rate mortgages stand at their lowest levels recorded since the instrument began in the 1970s: 3.89 percent.

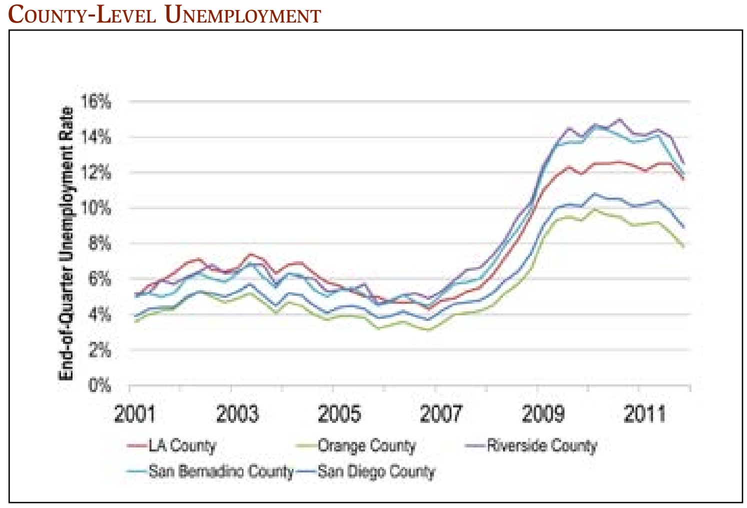
So what are the implications of low interest rates, from a macroeconomic standpoint? If the Fed is successful in lowering rates (or keeping them lower than they otherwise would have been given other macroeconomic factors), it will make the dollar less attractive to other assets, because returns to dollar denominated assets will be lower than returns to the Chinese RMB and the Euro. Should the dollar depreciate, American goods will be more competitive abroad. This could matter even in the real estate context: if rents in New York and Los Angeles become lower relative to London and Tokyo, firms will have an incentive to do more business in the United States. From a real estate ownership standpoint, lower interest rates will lead to lower cap rates (or investment return hurdles), which will push transaction prices higher.

California Unemployment



Source: Bureau of Labor Statistics

County-Level Unemployment

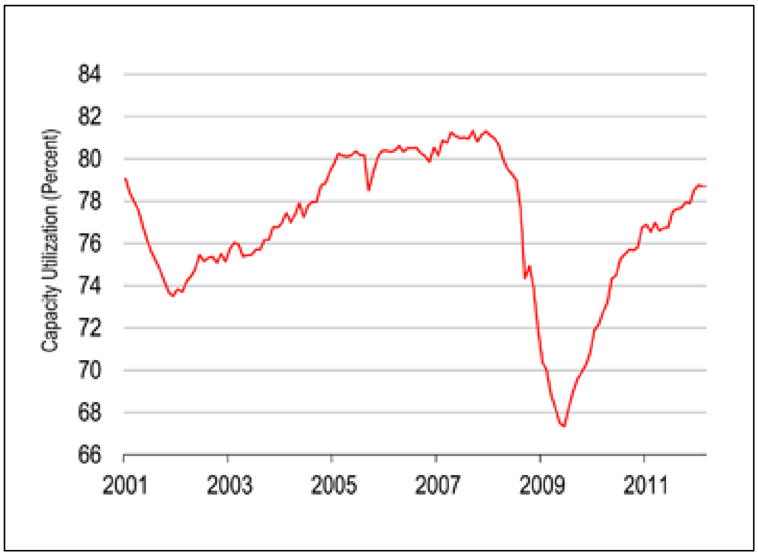


Source: Bureau of Labor Statistics

Manufacturing vs Non-manufacturing Employment

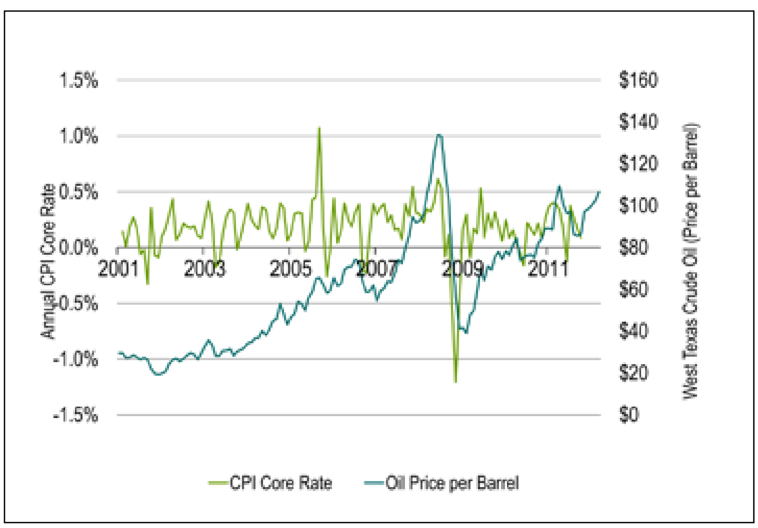
Source: Bureau of Labor Statistics

Capacity Utilization



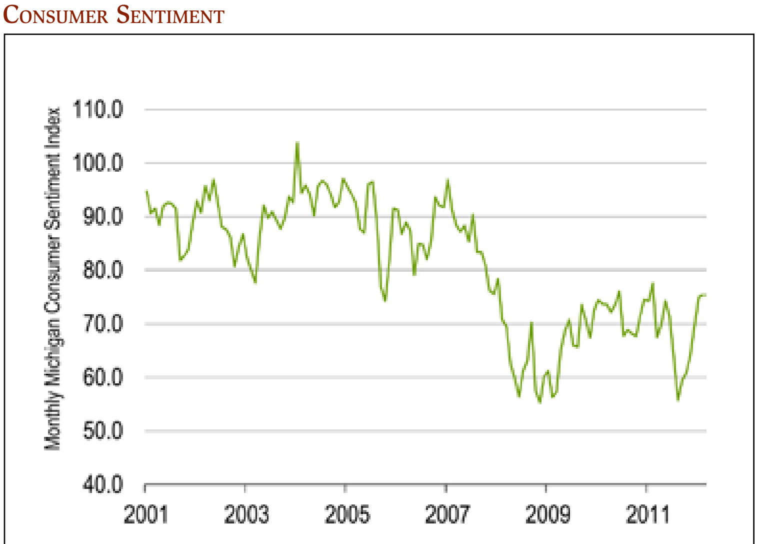
Source: Bureau of Economic Analysis

Oil Prices vs CPI Core



Source: Federal Reserve, U.S. Energy Information Administration

Consumer Sentiment



Source: Michigan Survey of Consumer Sentiment

One possible stumbling block to sustaining low interest rates is the future growth prospects of China. In March of 2012, China experienced its fifth straight month of decline in manufacturing orders. With lower exports to the US, China will have fewer dollars to invest in US Treasuries, which could drive down Treasury prices and raise yields. The Chinese government, in response to the slowdown, has proposed a plan of monetary easing.

On the housing front, prices have continued to decline. The most recent Case-Shiller news release showed a 3.8 percent year-over-year decline in prices within its "Composite 20" sample and a 3.9 percent year-over-year decline within the "Composite 10". Both composites are off by more than a third from their 2006 peaks. Los Angeles recorded a 5.4 percent year-over-year drop and a 0.8 percent drop from December 2010 to January 2011. The median single-family house price for California stood at $266,660 as of February 2012. On the bright side, existing home sales are up 8.8 percent year-over-year at the national level and 5.5 percent statewide. According to the California Association of Realtors, the inventory of homes selling for less than $750,000 stands at about 5.3 months, down from 7.5 months in February of 2011.

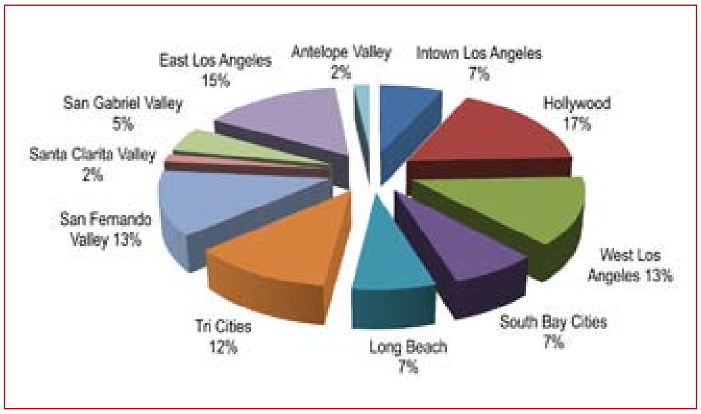
All in all, because of low interest rates and the crash in house prices, owner-occupied housing in California has reached its most affordable levels in decades; owning is often competitive with renting on an after-tax, cash flow basis. Add into the mix the multiple economic indicators pointing toward a sustained recovery, and it is no surprise that housing transactions are up. Although homeownership and rentership are substitutes for one another, it may not be the case in this economic environment that one grows sharply at the expense of the other. With such strong nationwide job creation (and possibly disproportionate hiring of younger workers, who are typically more inclined to rent) we may see strengthening in both the housing and multifamily market as the well-capitalized renters make the jump to homeownership and the young move out of parents' homes and away from roommate situations into apartments. Again, the effect may be tempered in California, where job creation has not been as robust as in the rest of the nation.

Looking to the future, the threats to US economic recovery appear, at the moment, to be largely external – rising oil prices, continued instability in the Middle East, and a slowing of growth in China. Most of the macroeconomic factors of greatest concern previously – unemployment, consumer spending/confidence, and tight credit – have taken a sustained turn for the better. Overall, we are optimistic that the coming 12 to 24 months will bring continued improvement.

2011 Multifamily trends

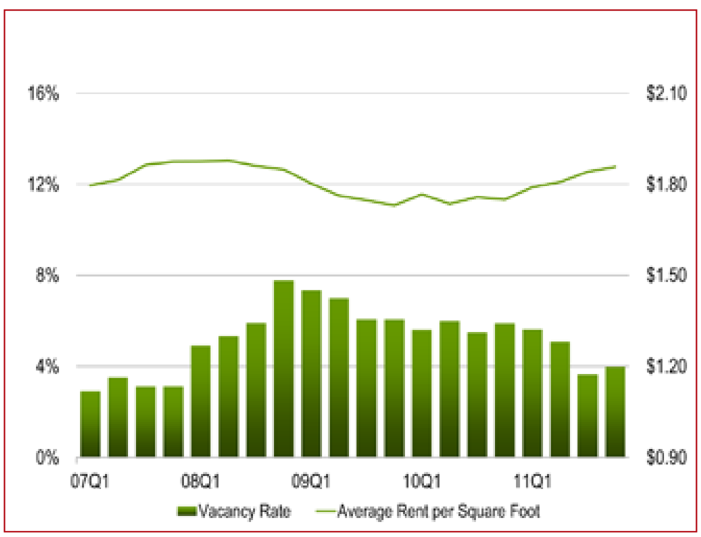
Los Angeles Multifamily Market Trends

Los Angeles Multifamily Submarket Shares



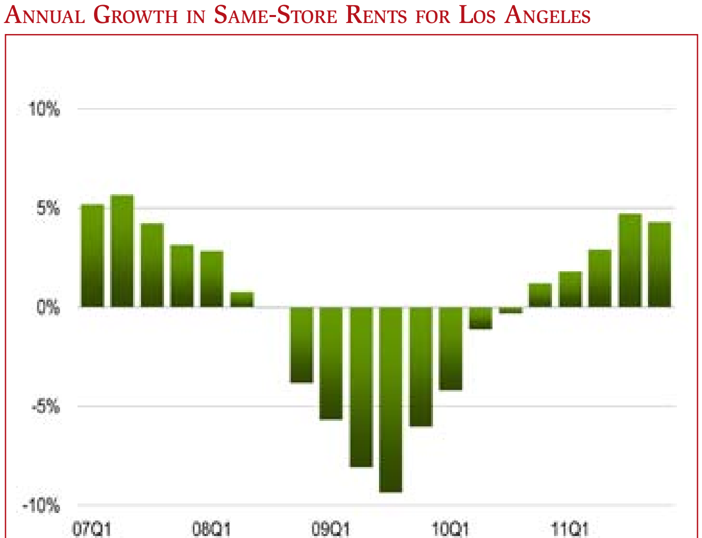
Source: MPF Research

Average Rents and Vacancy Rates in LA County



Source: MPF Research

Annual Growth in Same-Store Rents for Los Angeles



Source: MPF Research

The Los Angeles multifamily market is diverse, dynamic, and large, with over one million apartments across 11 submarkets. The metro area saw its third straight year of increasing demand, logging 22,340 units of positive net absorption. Occupancy grew by 1.9 percentage points to 96 percent. The third quarter of 2011 saw the highest number of move-ins. Demand retreated slightly in the fourth quarter.

All eleven submarkets contributed to the increased demand; even the Antelope Valley, which has recently been one of the metro area's weakest-performing submarkets, recorded 490 net move-ins. The largest occupancy gain was recorded by the Intown submarket: occupancy rose by 5.3 percentage points to end the year at 96.8 percent.

The overall increase in demand appears to have resulted from several factors: first, a decline in new construction. Although supply growth in Los Angeles has not slowed to the degree observed in the other three metro areas, completions in 2011 were less than half of the 2010 total. In addition, Los Angeles appears to be benefitting from a nationwide trend of families moving from shadow-market inventory back to traditional multifamily product, either due to foreclosure or sale of shadow-market properties or a general preference for the amenities and conveniences offered by traditional multifamily properties. As the economy continues to improve more renters may be lured into homeownership, but for the time being, home sales remain low.

For the second year in a row, Los Angeles County saw an increase in both average and same-store rents. Same-store rents grew 4.3 percent, compared with 1.2 percent in 2010. Los Angeles County logged the second-highest same-store rent growth among Southern California metro areas. Average monthly rents finished the year at $1,596. Up 6.2 percent from a year earlier, average rents per square foot stand only $0.02 off from their peak of $1.77, which was recorded in Q2 of 2008. Four submarkets posted average rent gains of 6 percent or more in 2011: West Los Angeles, Hollywood, Intown, and Tri-Cities. The Tri-Cities submarket posted the biggest year-to-year turnaround, making up more than half of the 9.2 percent decline in rents experienced in 2010. Although still logging positive rent growth for the year, East Los Angeles was the weakest performer among Los Angeles submarkets; average rents grew 1.2 percent, while same-store rents grew 0.7 percent.

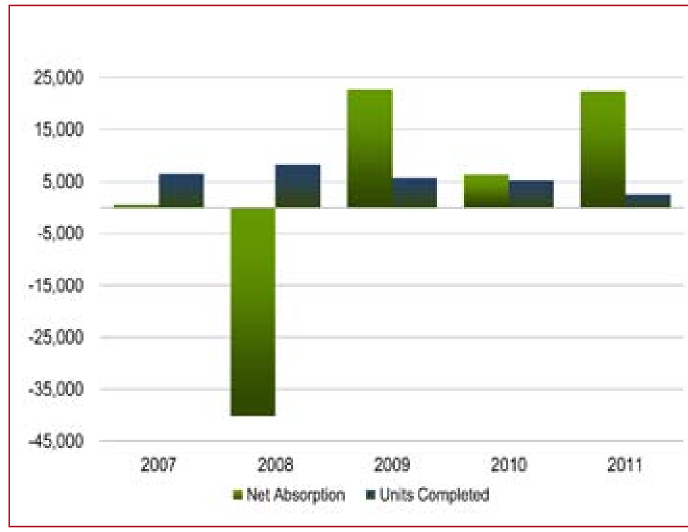
Construction Activity

Although the 2,483 completed units represented a 53 percent decline from 2010, Los Angeles was home to more than 65 percent of the total deliveries for 2011. With a supply of over one million units, however, these completions represented a very small increase in the total apartment stock.

As of the end of 2010, 2,375 units are scheduled for delivery in 2012. Although eight of eleven submarkets stand to receive new units in 2012, four of them – West Los Angeles, San Fernando Valley, Hollywood, and Intown – will be home to 82 percent of the anticipated completions.

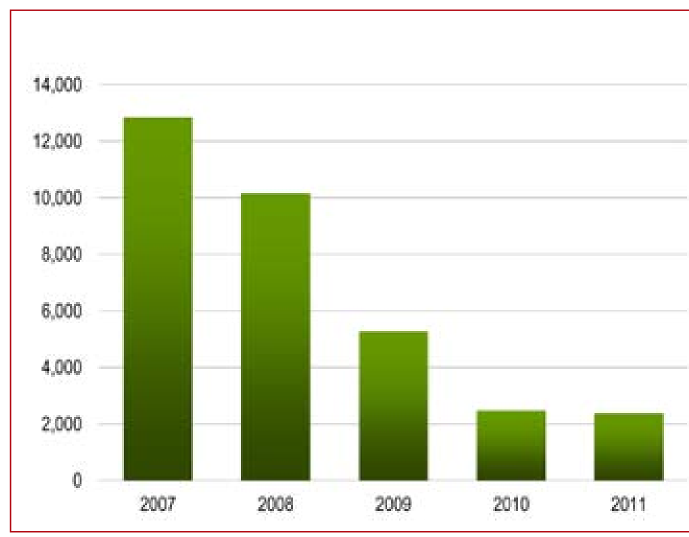
No single developer dominates in Los Angeles County. Of the 27 projects anticipated for completion in 2012, six have over 100 units. The largest of these projects are Merlone Geier Partners' STELLA (West Los Angeles submarket) and Oceano Apartments' Oceano at Warner Center (San Fernando Valley submarket), each with 244 units. Six additional projects totaling 1,548 units are expected to be delivered in 2013, all of which have 150 units or more. Alliance Residential's Broadstone Ferrara and Broadstone ICIS will bring 308 units to the North Hollywood submarket and 200 units to the Tri-Cities submarket, respectively.

New Supply and Net Absorption for LA County



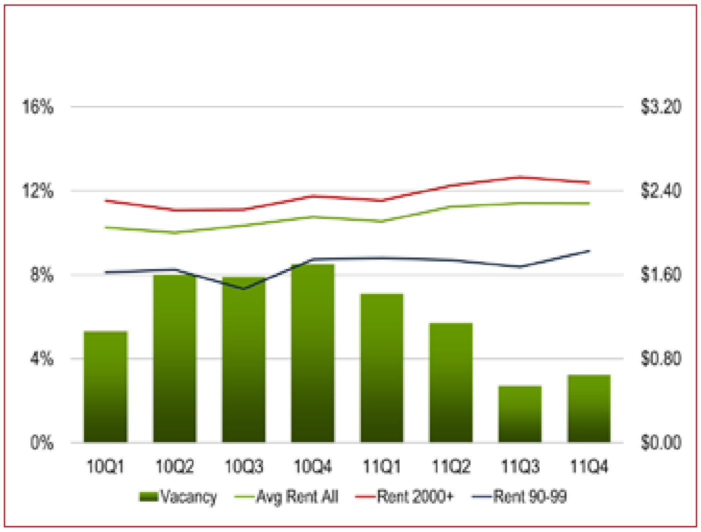
Source: MPF Research

Year-End Construction Activity in Units for LA County



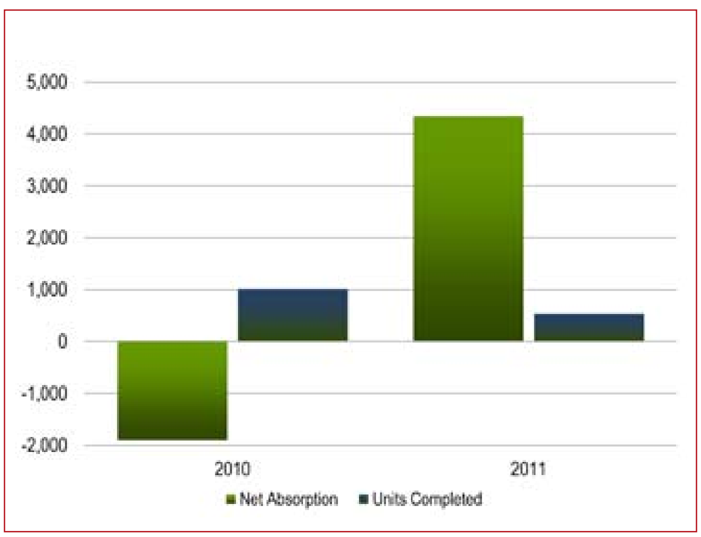
Source: MPF Research

Vacancy Rate and Average Rent by Age of Apartment for Intown



Source: MPF Research

New Supply and Net Absorption for Intown



Source: MPF Research

Intown

Over the past decade, Intown has experienced a surging population and rising incomes, but the recession eroded that momentum during 2008. In the three subsequent years, the area has witnessed significant volatility in demand. After experiencing 1,900 net move-outs in 2010, the submarket surged back in 2011 with 4,340 net move-ins, bringing the occupancy rate up 5.3 percentage points to 96.8 percent. Intown now boasts the second-highest occupancy rate in Los Angeles County.

The Intown submarket logged the fourth-highest average rent growth among Los Angeles submarkets.

The 6.0 percent increase in rents brought the two-year total growth to 18.2 percent. As of Q4 2011, the average monthly rents stood at $1,938. Same-store rents grew 2.5 percent during 2011.

In the Intown area, 537 new units were delivered across four projects. Three of these properties are located west of I-110. Concerto Development's 78-unit Seven and Bridge, was the only condominium re-positioning. The largest project to be completed was the second phase of GH Palmer and Associates' Piero development, with 335 units. The Italian villa-inspired property includes a rooftop swimming pool and a pedestrian bridge that connects the new structure to Piero I next door. Other completed projects include AMCAL Multi-Housing's 56-unit Mosaic, GH Palmer Associates' 335-unit Piero II, and Los Angeles Housing Partnership's 68-unit Seventh & Coronado.

The Intown submarket currently expects to see delivery of 374 new units across six properties in 2012 and one project totaling 280 units -- Equity Residential's Chinatown Gateway -- in 2013. Four of these properties are located west of the I-110. None of the projects are condominium re-positionings. McCormack Baron Salazar expects to finish the first phase of its mixed-income, mixed-use, transit-oriented development in MacArthur Park in early 2012. The 90-unit community is located one block east of the Westlake/MacArthur Park Metro Rail Station. Foursquare Foundation's Senior Living community, Parkview Living, is scheduled to open in April 2012. Located in Echo Park, the 75-unit affordable senior project was designed by the architectural firm KTGY Group. The urban-infill redevelopment project is designed to be eco-friendly and pedestrian- and transit-oriented. Finally, Downtown Management expects to finish renovation of the 75-year-old Chester Williams Building at Fifth Street and

Broadway in summer 2012. The developer is converting the former office building into 88 apartments. Pharmacy chain Walgreens has signed a lease to occupy the 13,908-square-foot ground-floor commercial space.

Hollywood

The Hollywood area includes Hancock Park, Los Feliz, Silver Lake, North Hollywood, Park LaBrea,

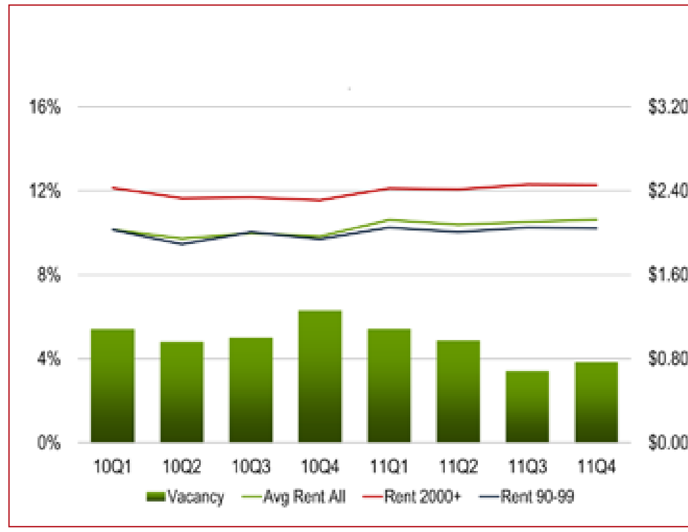
Studio City, Universal City, and Toluca Lake. Like Intown, the Hollywood submarket has experienced significant volatility in demand since 2008. After logging 1,620 units of negative net absorption in 2010, the area recorded 4,750 net move-ins for 2011. Occupancy subsequently rose 2.5 percentage points to 96.2 percent. Average rents showed a similarly strong performance, rising 8.1 percent to $2.13 per square foot. This figure is about 6 percent off the historic high for the submarket, set in Q4 2007. At the end of 2011, average monthly rents stood at $1,780 per square foot. Same-store rents rose 5.6 percent.

Following a two-year period in which 2,295 new units came to market, 2011 was a quiet year for completions . The Avenue, a 180-unit condominium re-positioning by Resmark Equity Partners, was the only delivery to the Hollywood submarket. Resmark purchased the partially completed building in a trustee sale in late 2009 for $20 million. John Laing Homes was the original developer.

Completions are expected to pick up slightly over the next two years. Five projects totaling 446 units are slated for delivery in 2012, and one project of 308 units is scheduled for completion in late 2013. CIM Group's 32-unit project, 1800 Whitley, which broke ground in late 2011, is the only condominium re-positioning.

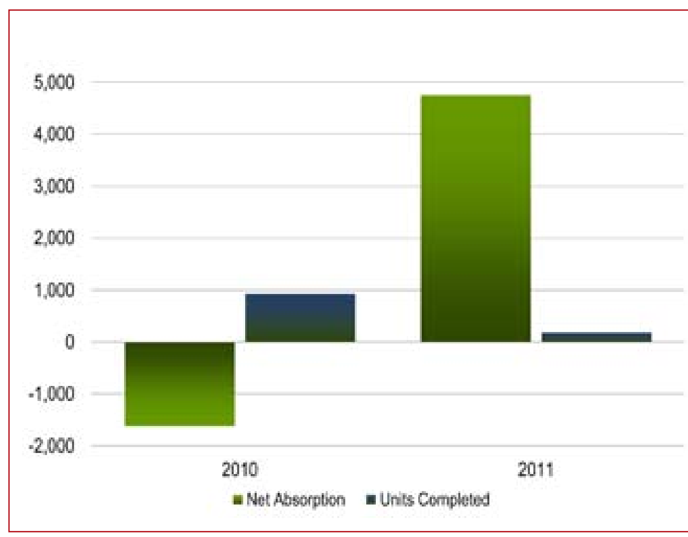
With 125 units, Grand Vista in Studio City is expected to open in summer 2012. The 4-and-5 story apartment community will offer one, two and three-bedroom units and will feature a swimming pool and sun deck, tennis courts, and a clubhouse. Meta Housing Corporation's 5555 Hollywood project is expected to be finished in July 2012. The 120-unit senior affordable apartment community will feature 6,000 square feet of street level retail. The 4-story project is slated to achieve LEED Silver Certification. Meta Housing Corporation is also expected to finish construction of its NoHo Senior Arts Colony in North Hollywood in the fall of 2012. NoHo Senior Arts Colony will include 125 units with an 80% market rate and 20% low income apartment mix. The senior apartment housing project will feature art and sculpture studios, sculpture exhibit space, a performing arts theater with rehearsal space, creative writing and read- aloud library, computer filmmaking and digital music editing equipment, and a computer media arts center, as well as more traditional community rooms. Meta Housing Corporation is also pursuing LEED certification for its NoHo project.

Vacancy Rate and Average Rent by Age of Apartment for Hollywood



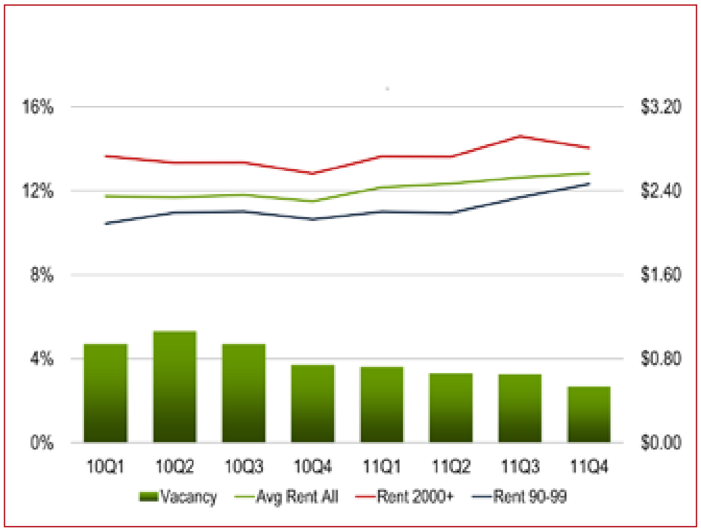
Source: MPF Research

New Supply and Net Absorption for Hollywood



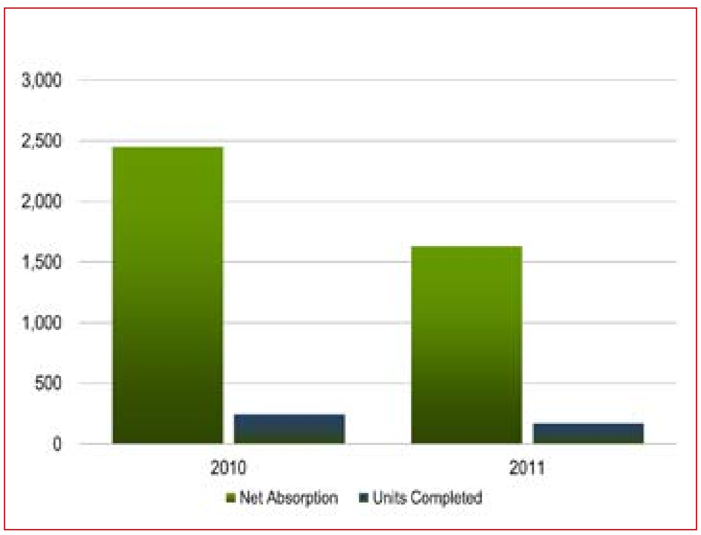
Source: MPF Research

Vacancy Rate and Average Rent by Age of Apartment for West Los Angeles



Source: MPF Research

New Supply and Net Absorption for West Los Angeles



Source: MPF Research

West Los Angeles

The West Los Angeles region includes Beverly Hills, Brentwood, Westwood, West Hollywood, Santa Monica, Pacific Palisades, Malibu, Marina del Rey and Venice. With their proximity to white-collar office jobs and numerous dining, retail, and recreational opportunities, these affluent neighborhoods remain the most desirable submarkets in Los Angeles County.

West Los Angeles continues to have the tightest rental market in Los Angeles County. The submarket logged 1,630 net move-ins and saw occupancy rise 1 percentage point to 97.3 percent. Average rents, which have long stood as the highest among Los Angeles County submarkets, grew an astonishing 11.5 percent in 2011 to an historic high of $2.57 per square foot. At the end of 2011, average monthly rents stood at $2,334, nearly $400 more than the second most expensive submarket (Intown). Same-store rents also exhibited the highest growth among Los Angeles County submarkets, rising 7.1 percent.

West Los Angeles took delivery of 170 new units in 2011 via three projects. In June, Wiseman Development completed its 63-unit Santa Monica Plaza, a condominium re-positioning venture which includes 11,200 square feet of retail space and two levels of subterranean parking. In December, NMS Properties delivered the 97-unit Luxe @ Broadway in Santa Monica, an affordable housing project that features junior one bedroom and one bedroom apartment dwellings.

Six hundred twenty six new units are expected for delivery in 2012 across six projects. NMS Properties anticipates completion of its 97-unit apartment community, Luxe @ Lincoln Studio, in August 2012. The Santa Monica project will include studio apartments with stainless steel appliances, granite counters and hardwood floors. Merlone Geier Partners' Stella project in Marina Del Rey is expected to open in November 2012. With a modern design and LEED Silver certification, Stella will include 244 apartment homes, 9,000 square feet of ground floor retail space, 578 parking stalls, and resort-style amenities.

South Bay

After taking off in 2010 with 2,480 net move-ins, demand growth in the South Bay submarket slowed to 770 net move-ins for 2011. Occupancy rose 0.9 percentage points to 96.2 percent. The health of the South Bay submarket is closely related to the manufacturing and trade activity surrounding the Port of Los Angeles. The Port saw a large jump in activity from 2009 to 2010, but container traffic remained largely flat from 2010 to 2011.

Growth on the rent side was mixed; average rents rose only 3.6 percent to $1.87 per square foot, while same-store rents rose 6.3 percent. The same-store rent growth figure was the second highest among Los Angeles County submarkets, while average rent growth was in the middle of the pack. Average monthly rents finished 2011 at $1,687.

In 2011, one project of 49 units was delivered to the market. In August, New Economics for Women completed Toberman Village, an affordable housing development located in San Pedro. No new deliveries are anticipated for 2012.

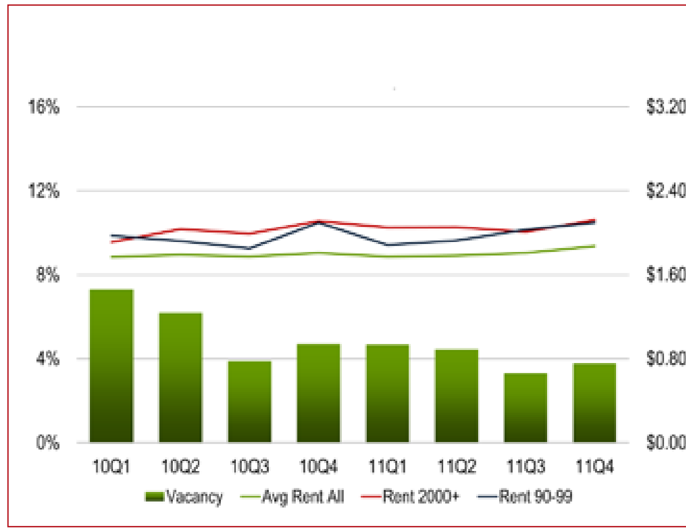
Long Beach

Long Beach continued to show growth on the demand side with 900 net move-ins and a rise in occupancy of one percentage point. Rent growth in the area was relatively weak, however, compared to the rest of the Los Angeles County submarkets. Average rents grew 2.8 percent to $1.66 per square foot, while same-store rents grew 1.4 percent. Average monthly rents ended 2011 at $1,342, the fourth-lowest in the metro area.

Long Beach added 185 new units of multifamily product to the existing stock in 2011 via two senior-living projects: Thomas Safran & Associates' 85-unit Carson City Center in Carson and ROEM Development Corporation/La Cienega LOMOD's 100-unit Dana Strand Senior in Wilmington.

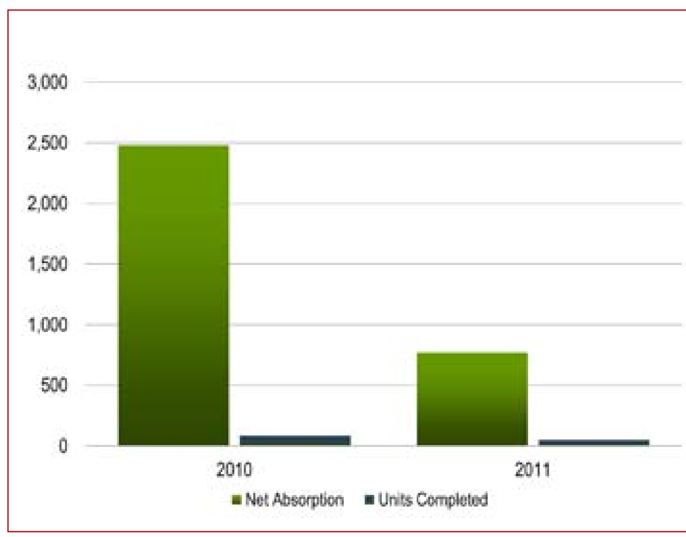
The Long Beach Senior Arts Colony, which is being developed through a joint effort between the Long Beach Housing Development Company, Meta Housing Corporation, and Century Housing Corporation, will bring 200 new units to Long Beach in late 2012. The project represents the first phase of a mixed-use development being constructed at the intersection of Long Beach Boulevard and Anaheim Street and will offer programming that caters toward an active senior lifestyle. Thomas Safran & Associates' Renaissance at City Center will bring another 150 units to Carson in early 2013.

Vacancy Rate and Average Rent by Age of Apartment for South Bay



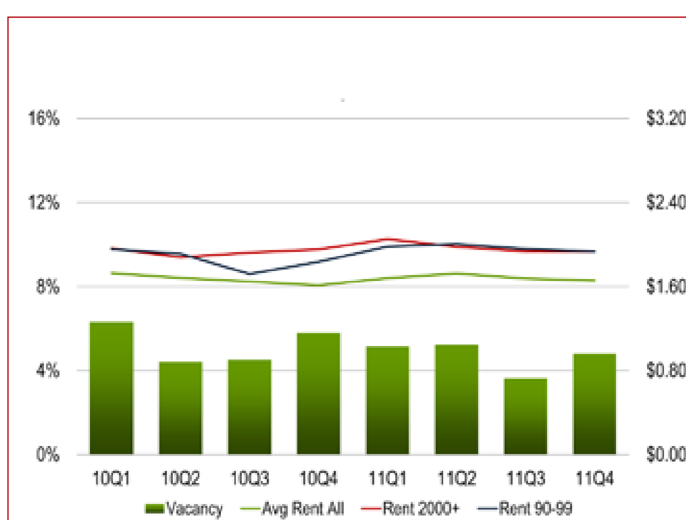
Source: MPF Research

New Supply and Net Absorption for South Bay



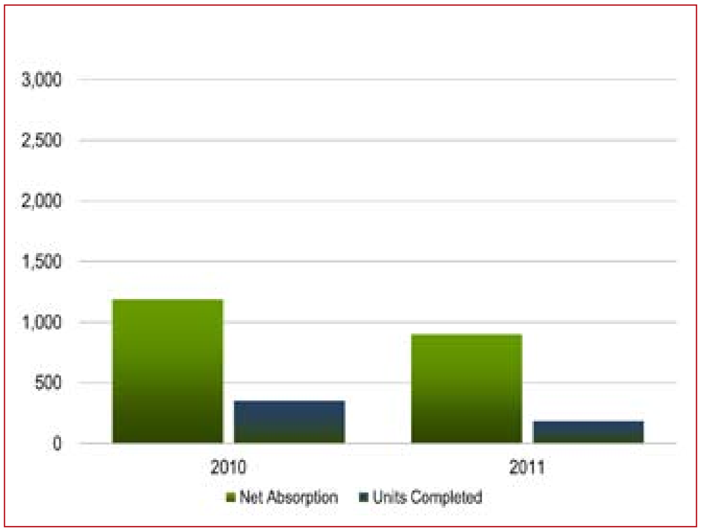
Source: MPF Research

Vacancy Rate and Average Rent by Age of Apartment for Long Beach



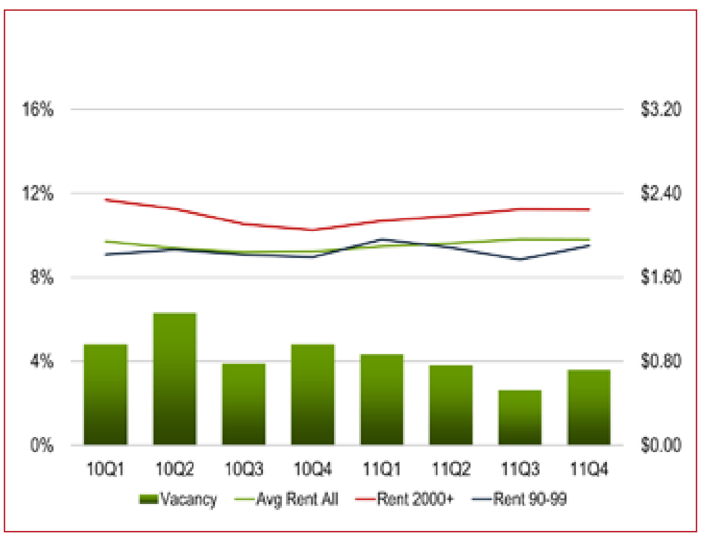
Source: MPF Research

New Supply and Net Absorption for Long Beach



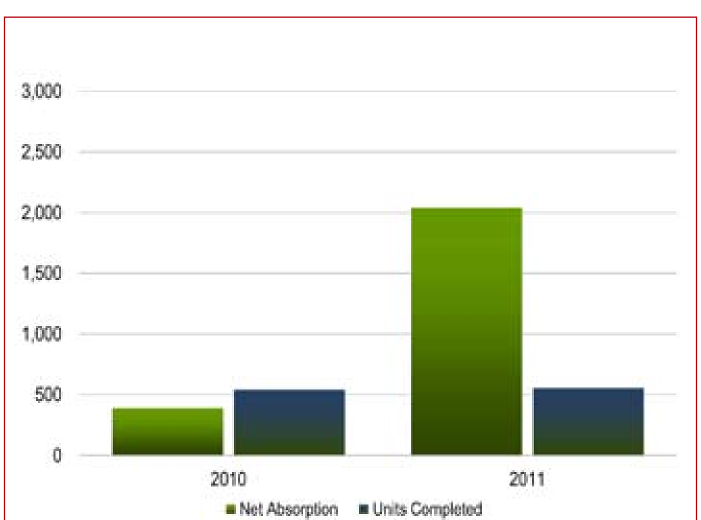
Source: MPF Research

Vacancy Rate and Average Rent by Age of Apartment for Tri Cities



Source: MPF Research

New Supply and Net Absorption for Tri Cities



Source: MPF Research

Tri Cities

After experiencing tepid demand growth and falling rents in 2010, the Tri-Cities submarket bounced back in 2011 with strongly positive net absorption and the third-highest average rent growth among Los Angeles submarkets. The Tri-Cities submarket, which includes Burbank, Glendale, Pasadena, and their surrounding areas, logged 2,040 net move-ins for 2011. The occupancy rate subsequently rose 1.8 percentage points to 96.4 percent, the third-highest level among Los Angeles submarkets.

Average rents grew 6.3 percent to $1.96 per square foot, while same-store rents grew 3.6 percent. The average monthly rent rose to $1,643.

The Tri Cities submarket took delivery of 555 new units in 2011 across three projects. The majority of these units came from Sares-Regis Group's 480-unit Westgate project in Pasadena, which was completed in February. The LEED Silver-certified development is one of the largest smoke-free apartment communities in Los Angeles County. New supply was also delivered via Abode Communities' 50-unit Glassell Park project , and East LA Community Corporation's 25-unit Cuatro Vientos development. The Glassell Park development is a joint venture with LA Unified School District on LAUSD-owned land and shares its site with an early education center.

One project is scheduled for completion in Q1 2012: Abode Communities' Hudson Oaks. The development will bring additional 45 units of affordable, senior housing to the Pasadena area.

San Fernando Valley

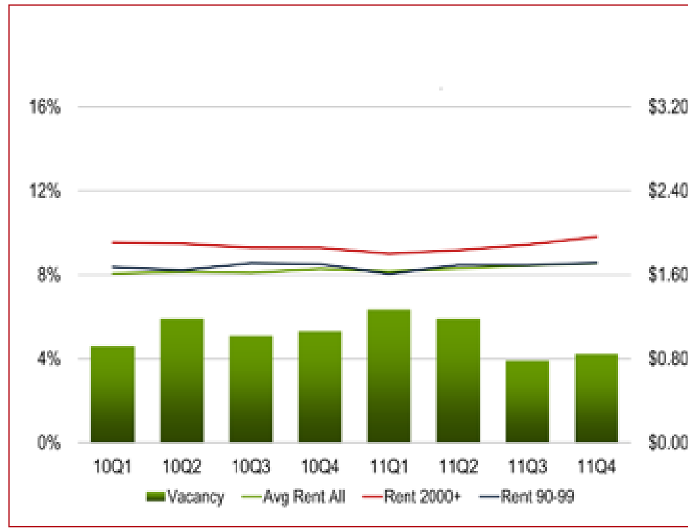
For the third year in a row, the San Fernando Valley submarket saw improvement in demand, with 1,830 net move-ins. The area finished the year with an occupancy rate of 95.8 percent, up 1.1 percentage points from Q4 2010. Average rents were up 3.4 percent to $1.71 per square foot, while same-store rents were up 3.9 percent. Average monthly rents ended 2011 at $1,440.

The San Fernando Valley added 398 new units to its supply in 2011 via five projects. This figure represents a sharp decline in completions from 2010. The three largest developments were the 125-unit Legado Encino, the 98-unit Montecito Terraces in Panorama City, and the 75-unit Canyon Creek Calabasas. Built by the Legado Companies, Legado Encino is a four-story, mixed-use development with 17,000 square feet of retail space and 108,000 square feet of subterranean parking. AMCAL Multi-Housing's Montecito Terraces and Thomas Safron & Associates' Canyon Creek Calabasas are both affordable rental senior communities.

In 2012, the submarket expects to receive 509 new multifamily units across 5 projects. The two largest of these are IMT Valley Village and Oceano at Warner Center. IMT Residential finished construction of its Valley Village apartment community in January. The luxury apartment community has 96 units and features courtyards, a business center, fitness centers, a resort style pool and spa, a resident lounge area and outdoor fireplaces. TDI's Oceano at Warner Center in Woodland Hills is expected to finish construction in November 2012. The 244-unit development will consist of two 4-story residential buildings and a two-story, free-standing clubhouse.

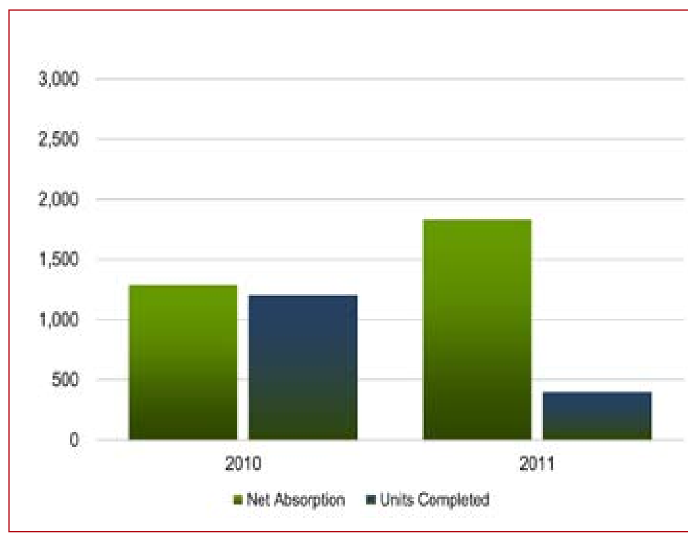
Four hundred and two additional units are expected to come to market in late 2013 via Fairfield Residential's project at 19600 West Plummer Street in Northridge.

Vacancy Rate and Average Rent by Age of Apartment for San Fernando Valley



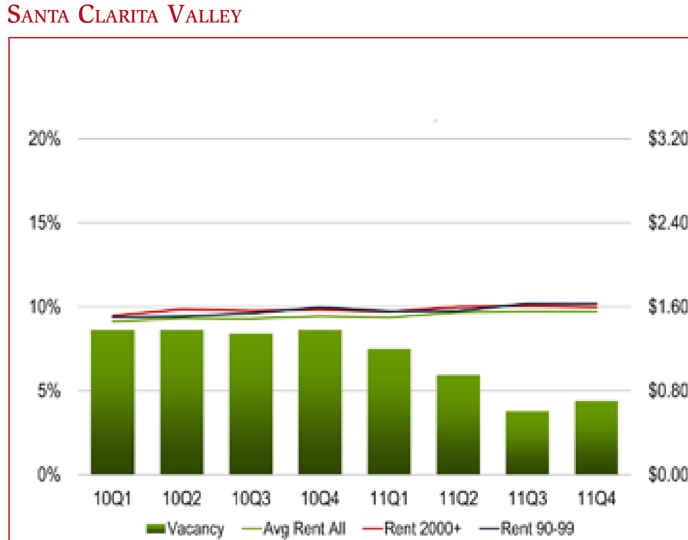
Source: MPF Research

New Supply and Net Absorption for San Fernando Valley



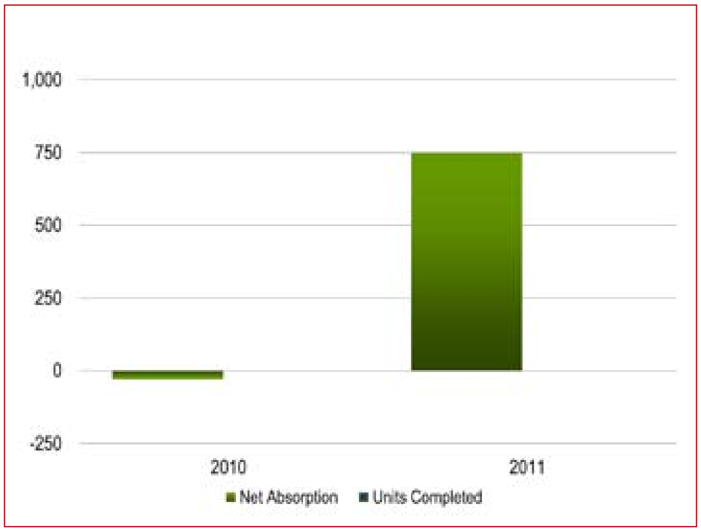
Source: MPF Research

Vacancy Rate and Average Rent by Age of Apartment for Santa Clarita Valley



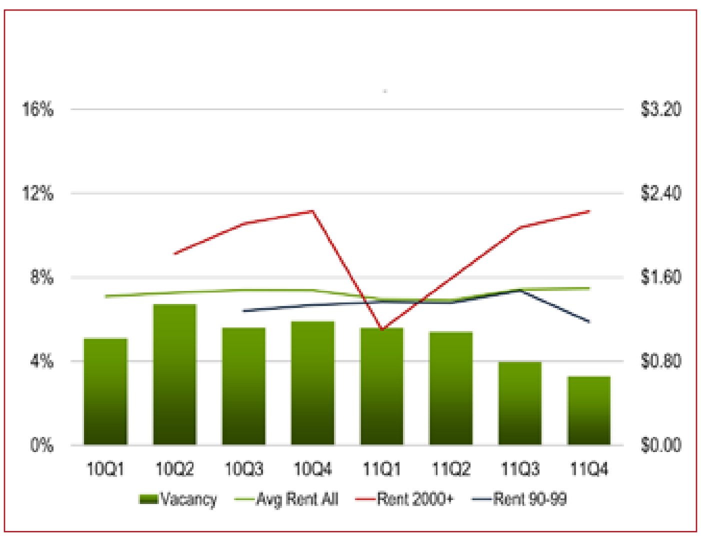
Source: MPF Research

New Supply and Net Absorption for Santa Clarita Valley



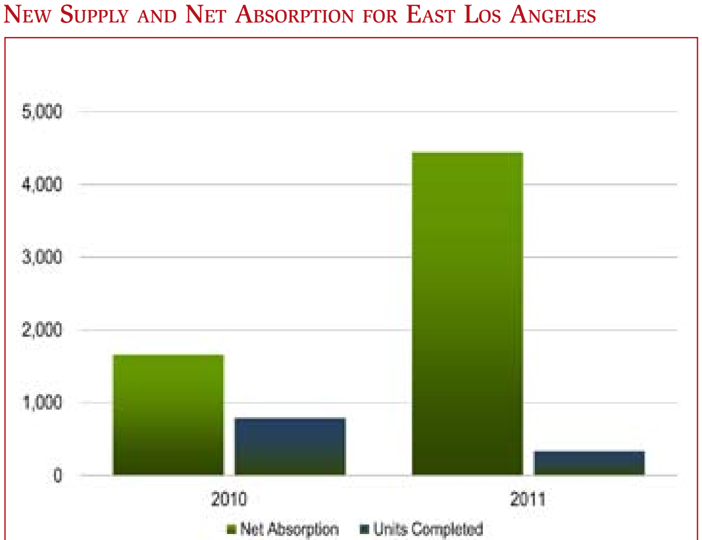
Source: MPF Research

Vacancy Rate and Average Rent by Age of Apartment for East Los Angeles



Source: MPF Research

New Supply and Net Absorption for East Los Angeles



Source: MPF Research

Santa Clarita Valley

After being one of only three submarkets to experience declining demand in 2010, the submarket roared back in 2011 with 750 net move-ins. The occupancy rate rose 4.2 percentage points to 95.6 percent, third-lowest among Los Angeles County submarkets. Average rents grew 3.0 percent to $1.56 per square foot, while same-store rents climbed 3.6 percent. At the end of 2011, average monthly rents stood at $1,465.

The Santa Clarita Valley received no new deliveries in 2011 and no further completions are anticipated for 2012.

East Los Angeles and San Gabriel Valley

The two eastern submarkets, San Gabriel Valley and East Los Angeles, both logged an increase in demand in 2011. The San Gabriel Valley submarket saw positive net absorption of 410 units and recorded an increase in occupancy of 0.6 percentage points. East Los Angeles had positive net absorption of 4,440 units, which was the second largest absolute increase in demand among submarkets. Occupancy increased by 2.6 percentage points to surpass the occupancy rate of its neighboring submarket. San Gabriel Valley and East Los Angeles ended 2010 at 95.6 and 96.7 percent occupancy, respectively.

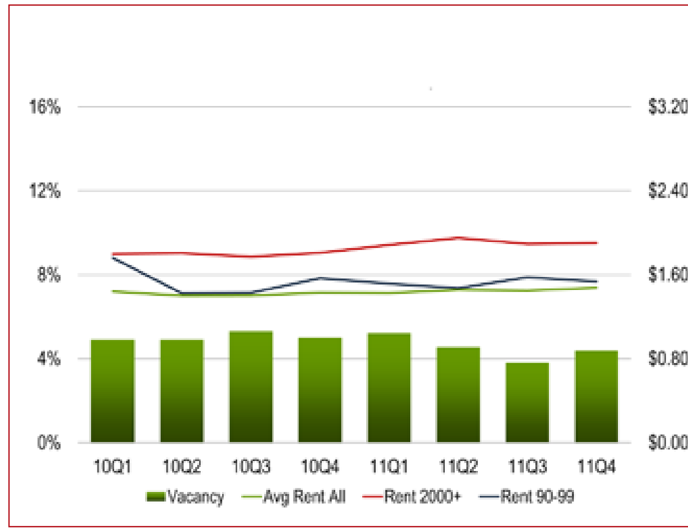
San Gabriel Valley recorded an average rent increase of 3.2 percent, bringing the average rent level to $1.48. Same-store rents increased 3.3 percent. East Los Angeles, on the other hand, saw average rents rise by only 1.2 percent and same-store rents rise by only 0.7 percent. Still, East Los Angeles came out on top with rents per square foot of $1.49. Average monthly rents for San Gabriel Valley and East Los Angeles ended the year at $1,241 and $1,266, respectively. In spite of its strong performance on the demand side, East Los Angeles recorded the weakest performance among Los Angeles County submarkets on the rent side.

Seventy-four new units were completed in the San Gabriel Valley in 2011 via one project: Jamboree Housing Corporation's Courier Place in Claremont. This development will be Jamboree Housing Corporation's first multi-generational affordable apartment community for both families and seniors. The three-story garden style community is situated in close proximity to the Claremont Transportation Center, downtown Claremont, and the Claremont Colleges. Sixty-eight additional units are expected for delivery in 2012 via Hanover Pacific's University of La Verne Student Housing project. The project will consist primarily of 4-bedroom units and will also include ground floor retail.

After adding 796 new units to the existing stock in 2010, East Los Angeles submarket received an additional 335 deliveries in 2011. The majority of these units came via two projects: a 161-unit development at West 27th Place and the 112-unit Lorena Apartments. In July, Symphony Development completed the 161-unit West 27th Place, a LEED Platinum-certified project aimed at the USC student community. The West 27th Place development is the only privately-financed LEED certified student housing development in Los Angeles. Completed in December 2011, the Lorena Apartments offer 112 low-income family-oriented units to the Boyle Heights neighborhood.

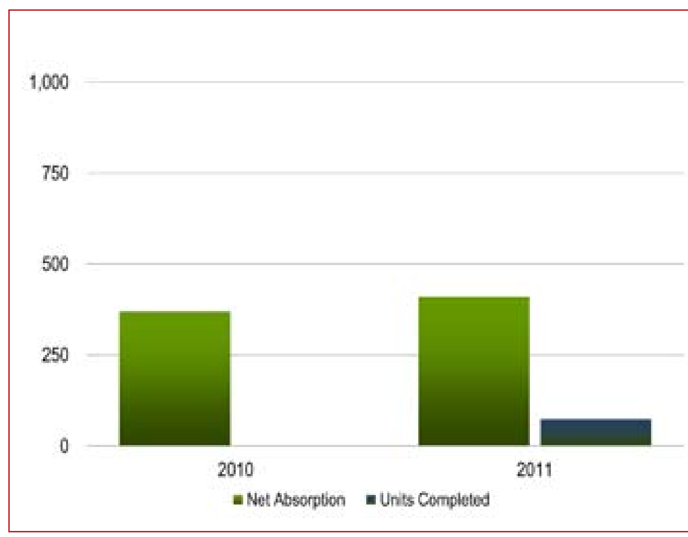
In 2012, 107 new units are expected for delivery via East Los Angeles Community Corporation's 51-unit Boyle Hotel Apartments and the Icon Company's 56-unit ICON Plaza at USC. In addition to providing affordable housing, the Boyle Hotel Apartments will include a Mariachi Cultural Center and approximately 4,150 square feet of commercial retail space. The ICON Plaza will consist of a six story mixed-use building containing 56 apartments and 12,500 square feet of ground level commercial/retail space over three subterranean parking levels.

Vacancy Rate and Average Rent by Age of Apartment for San Gabriel Valley



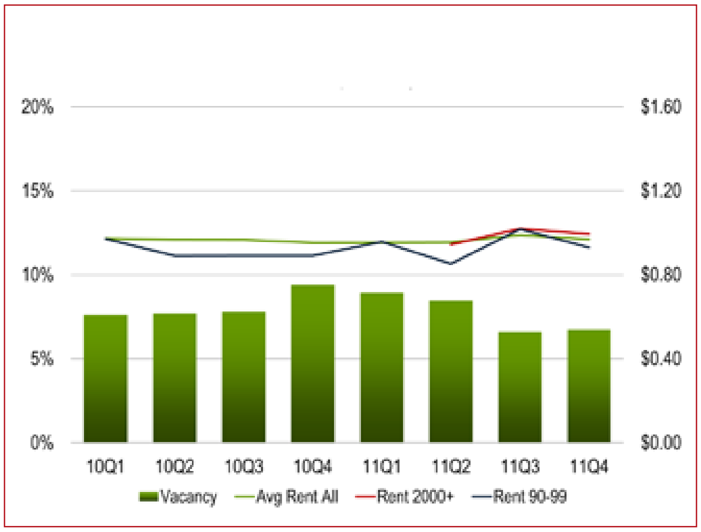
Source: MPF Research

New Supply and Net Absorption for San Gabriel Valley



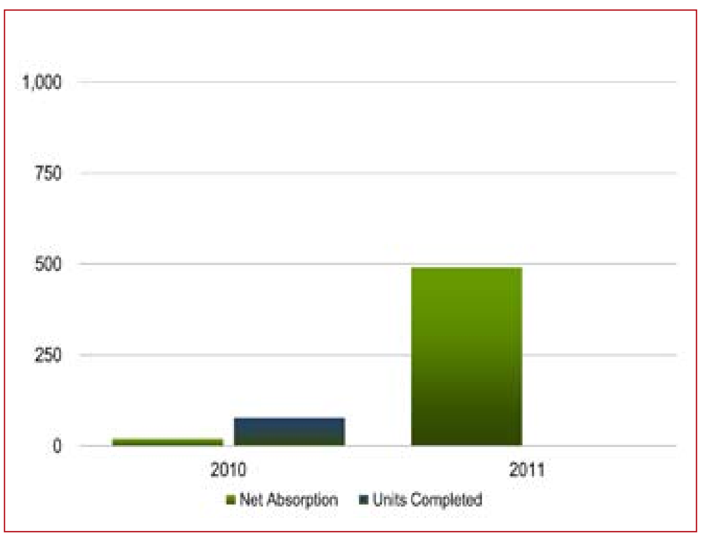
Source: MPF Research

Vacancy Rate and Average Rent by Age of Apartment for Antelope Valley



Source: MPF Research

New Supply and Net Absorption for Antelope Valley



Source: MPF Research

Antelope Valley

The Antelope Valley submarket is in the northern outskirts of Los Angeles County and includes the cities of Lancaster and Palmdale. After logging only 20 net move-ins in 2010, demand in the area picked up steam in 2011. The submarket recorded 490 net move-ins for 2011, which brought the occupancy rate up 2.7 percentage points. But at 93.3 percent, the Antelope Valley still has the lowest occupancy rate among Los Angeles County submarkets.

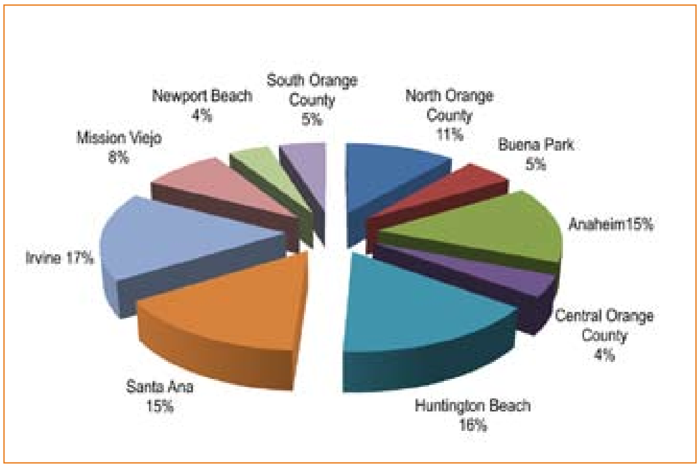
Rents also bounced back in 2011, rising 1.7 percent to 0.97 per square foot. Same-store rents rose 2.4 percent. At the end of 2010, the average monthly rent stood at $820, the lowest in the county by more than $420.

No new units were delivered to the submarket in 2011 and no further completions are anticipated for 2012.

For the third year in a row, Los Angeles County recorded an increase in apartment demand, with 22,340 net move-ins. This figure was on par with 2009 and nearly quadruple the net move-ins of 2010. All eleven submarkets recorded positive net absorption for 2011. Intown Los Angeles and Santa Clarita reported the largest relative gains in demand, with 4340 and 750 net move-ins, respectively. The overall occupancy rate rose 1.9 percentage points to 96 percent.

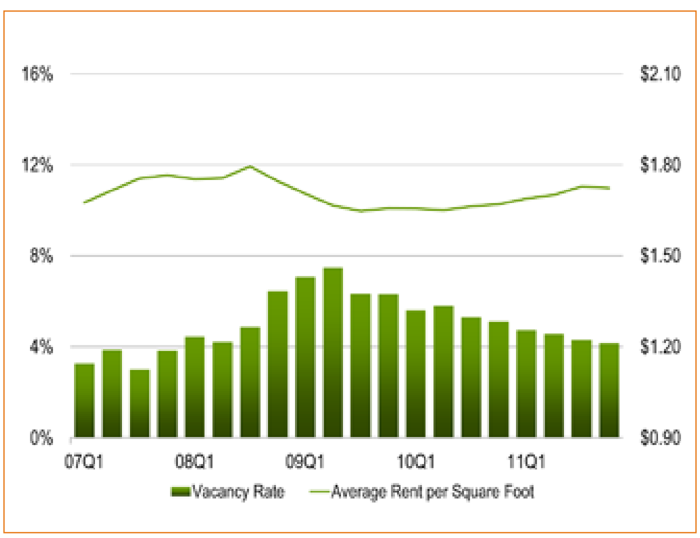
Orange County Multifamily Market Trends

Orange County Multifamily Submarket Shares



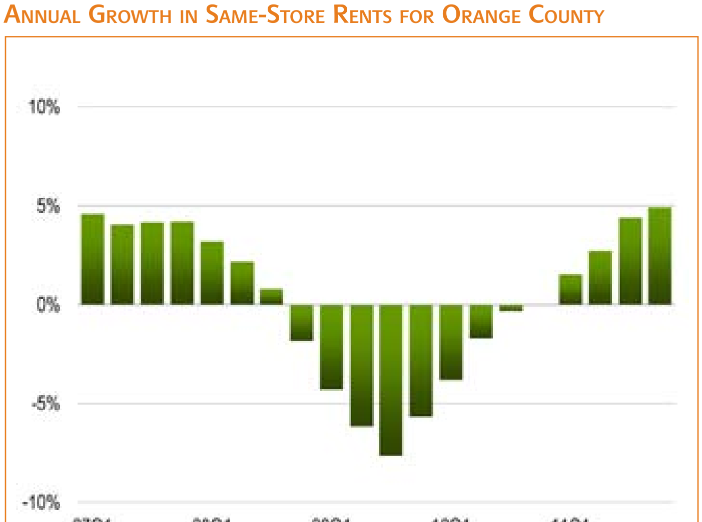
Source: MPF Research

Average Rents and Vacancy Rates in Orange County



Source: MPF Research

Annual Growth in Same-Store Rents for Orange County



Source: MPF Research

The subprime mortgage crisis dealt a hard blow to Orange County between 2007 and 2009, resulting in over 150,000 jobs lost. As the national and regional economy has improved, so has the employment picture in Orange County. Since December of 2009, the county has gained back 31,400 jobs and has seen the unemployment rate fall from 9.3 percent to 7.8 percent. Because of robust employment growth in preceding years, overall unemployment is still lower in Orange County than in neighboring metro areas such as San Diego, Los Angeles or the Inland Empire, and lower than the nation overall. Furthermore, home prices remain high relative to the rest of Southern California. As of February 2012, the median home price (including sales of new and existing homes) in Orange County was $485,380, compared with $362,470 for San Diego, $272,690 for Los Angeles, $200,730 for Riverside County, and $132,500 for San Bernardino County. The improved employment picture, the continued lack of home affordability, and a steep drop-off in construction have combined to help the county's multifamily market in 2011.

Demand for multifamily units increased in 2011, but at a slower pace than in 2010. The county recorded 2,290 net move-ins, a 60 percent decline from the prior year. Santa Ana and Huntington Beach experienced the highest levels of net absorption among submarkets, with 640 and 460 net move-ins, respectively. One submarket experienced negative net absorption for the year: Newport Beach, with 150 net move-outs.

With growth in demand outpacing growth in supply, apartment occupancy in Orange County increased 0.9 percentage points in 2010 to 95.8 percent. Due to the strong growth in demand in Los Angeles County, however, Orange County fell to third place among Southern California metro areas in total occupancy. Occupancy fell short of the West region as a whole by 0.3 percentage points.

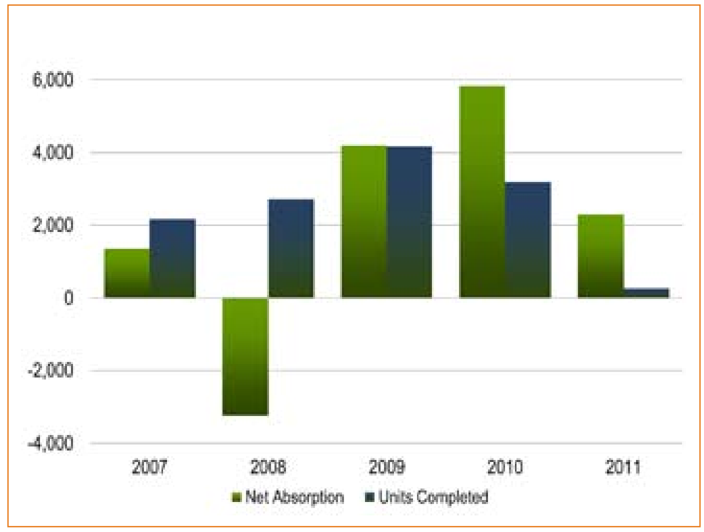
Buena Park once again ended the year with the highest level of occupancy among submarkets at 97.6 percent, while Newport Beach ended the year with the lowest level of occupancy at 94.8 percent.

The average monthly rent for an average-sized apartment in Orange County in 2011 was $1,523, or $1.72 per square foot. This figure represents an increase of 3.2 percent, and places Orange County as the sixth-most expensive metropolitan area in the US on a per-square-foot basis. Same-store rents on existing apartments rose 4.9 percent. Orange County's average rent increase was the weakest in Southern California. On the other hand, its same-store rent performance was the strongest and ranked 18th among the 64 metro areas in the US tracked by MPF Research.

Construction Activity

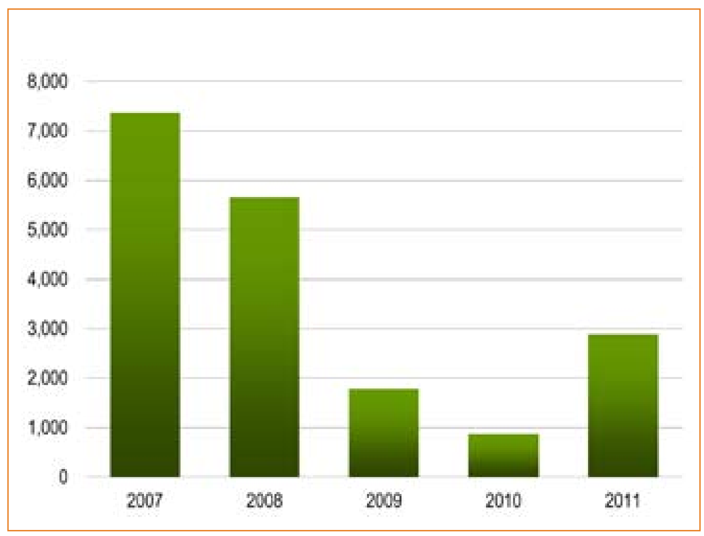
After adding nearly 2,900 new units to the market in 2010, construction came to a near-standstill in 2011. Only 263 new units were delivered across four submarkets: North Orange County, Irvine, Anaheim, and Huntington Beach. No single project delivered more than 94 units. Completions are expected to rebound in 2012, with expected deliveries of 2,883 new units across 8 projects. The Irvine submarket is expected to receive 97 percent of these units. The largest projects currently underway are all products of Irvine Apartment Communities: The Park at Irvine Spectrum Center II (694 units, scheduled for completion in September), Cypress Village Murano (628 units, scheduled for completion in October), and Cypress Village Umbria (435 units, also scheduled for completion in October).

New Supply and Net Absorption for Orange County



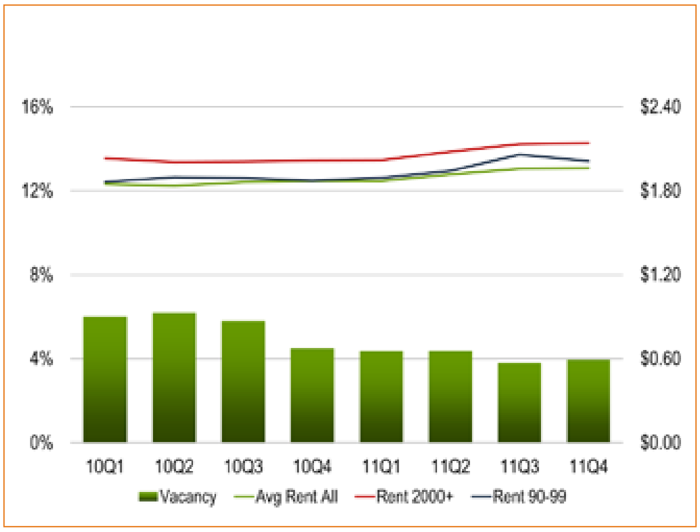
Source: MPF Research

Year-End Construction Activity in Units for Orange County



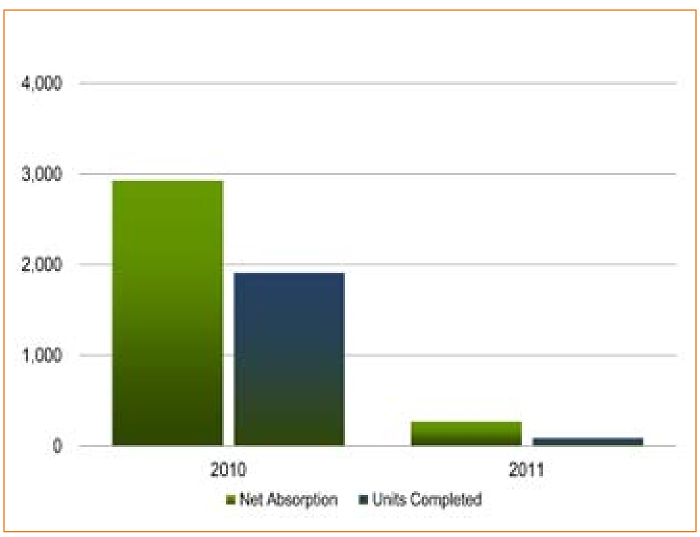
Source: MPF Research

Vacancy Rate and Average Rent by Age of Apartment for Irvine



Source: MPF Research

New Supply and Net Absorption for Irvine



Source: MPF Research

Irvine

Irvine experienced positive net absorption of 270 units in 2011, down from 2,930 net move-ins in 2010. Low numbers of completions helped matters considerably; the area still saw a 0.5 percentage-point increase in the occupancy rate to 96.0 percent. Average monthly rental rates increased 4.9 percent, while same-store rents increased 7.2 percent. Irvine and Newport Beach submarkets tied for the largest increase in same-store rents among Orange County submarkets. Average monthly rents ended 2011 at $1,792, the second highest level among submarkets. After receiving nearly 4,000 new units in 2009-2010, the Irvine submarket received only 87 new units in 2011 across two projects. In fall 2011, Jamboree's Housing Corporation completed the Doria Apartment Homes -- its first development in partnership with the Irvine Community Land Trust. Completed in less than 10 months, the two- and three-story garden-style buildings feature Spanish Colonial-style architecture. Ten of the sixty apartment homes are reserved for residents who receive services through the Mental Health Services Act.

In 2012, Irvine will regain its position as the focal point of the County's new construction. The submarket expects to receive 2,790 new units. Fall 2012 will bring the completion of nearly 1,700 units via Irvine Apartment Communities' Cypress Village. The development, which is located near the I-5 Freeway and 133 Toll Road, is a collection of four apartment communities with a variety of one- and two-bedroom floor plans. In addition to Cypress Village, the Irvine Apartment Communities anticipates delivery of 694 units via the second phase of The Park at Irvine Spectrum Center. In the Spring of 2012, Lennar Homes expects to complete Coventry Court at Columbus Square, a 240-unit senior-oriented community in Tustin. One hundred fifty three of the units will be restricted to Very Low, Low and Moderate Income-qualifying senior households.

Anaheim

Like Irvine, demand for multifamily units increased at a slower pace in 2011 than 2010. After logging 1,720 net move-ins in 2010, the submarket experienced 410 net move-ins in 2011. Again, due to very low deliveries for the year, the occupancy rate grew by 0.8 percentage points to 95.8 percent.

Average rents increased 3.0 percent to $1.53 per square foot, while same-store rents increased 4.8 percent. The average monthly rent is $1,318, the lowest level among Orange County submarkets. Anaheim is tied with Santa Ana for lowest rents on a per-square-foot basis.

The Anaheim submarket added 46 units of new supply in 2011 via one project -- about one-tenth the total added in 2010. Anaheim Redevelopment Agency's income-restricted Arbor View development was finished in Spring 2011. Ninety-three new units are anticipated for delivery in 2012, via Related Development Company's income-restricted South Street Apartment Homes.

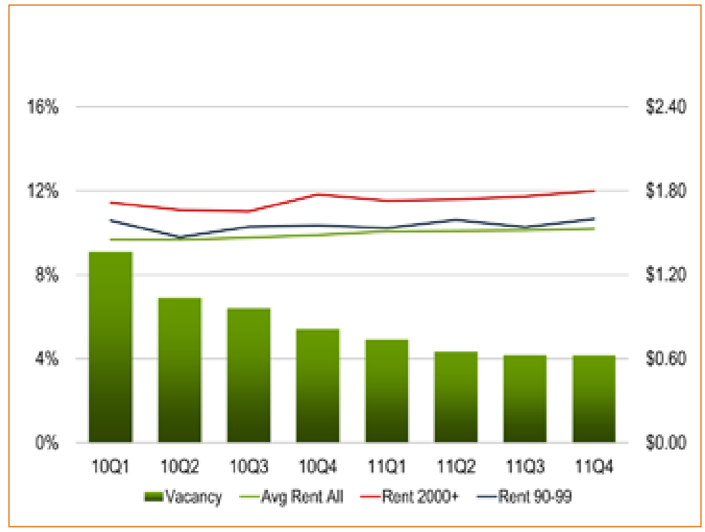
Newport Beach

After witnessing 290 net move-ins in 2010, Newport Beach became one of only four submarkets in Southern California to experience net move-outs. The submarket experienced negative net absorption of 150 units in 2011, bringing the occupancy rate down 1.6 percentage points to 94.8 percent. Newport Beach currently has the lowest occupancy rate among Orange County submarkets.

Average rents in the area grew 2.1 percent to $2.18 per square foot. With monthly average rents of $2,112, Newport Beach has the highest rents in the County by $330. Same-store rents grew by 7.2 percent during 2011.

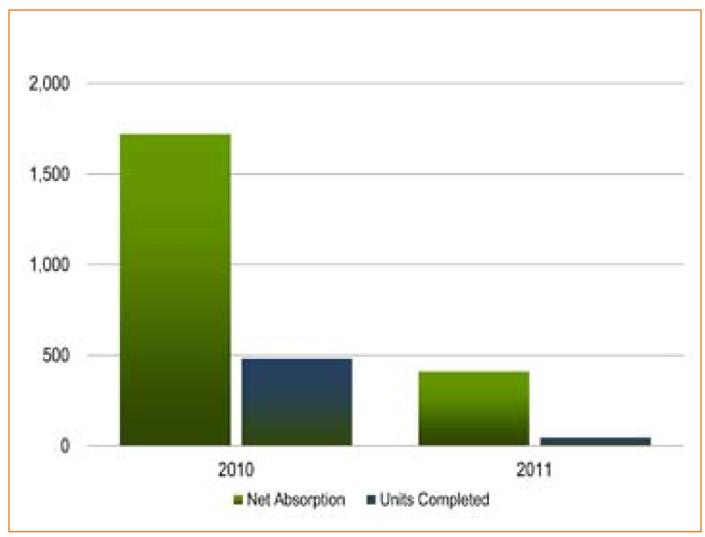
No new units were delivered in 2011 and no additional completions are anticipated for the foreseeable future.

Vacancy Rate and Average Rent by Age of Apartment for Anaheim



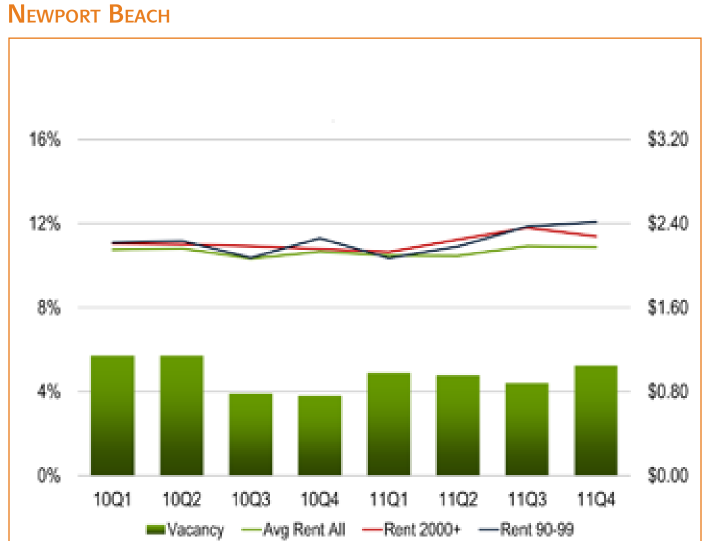
Source: MPF Research

New Supply and Net Absorption for Anaheim



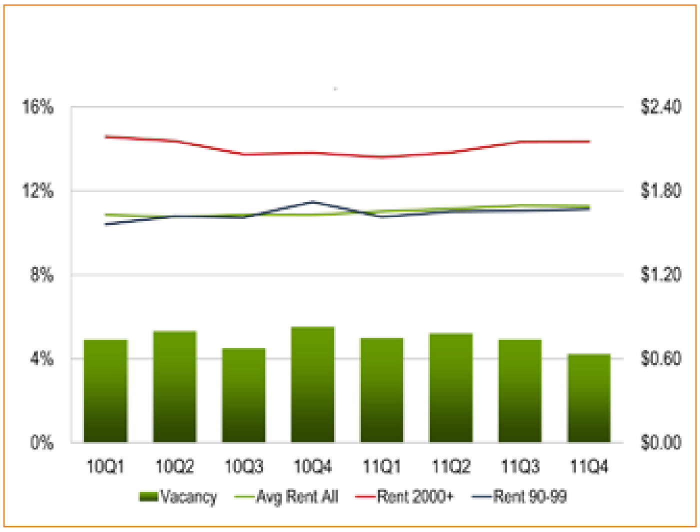
Source: MPF Research

Vacancy Rate and Average Rent by Age of Apartment for Newport Beach



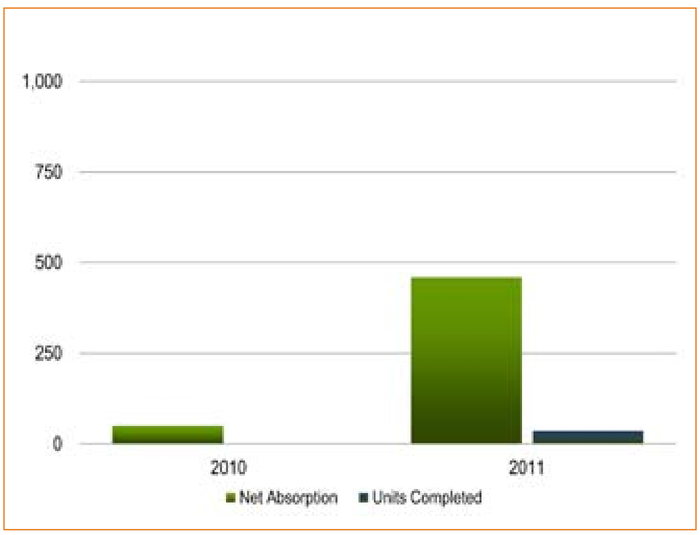
Source: MPF Research

Vacancy Rate and Average Rent by Age of Apartment for Huntington Beach



Source: MPF Research

New Supply and Net Absorption for Huntington Beach



Source: MPF Research

Huntington Beach

After experiencing sluggish demand growth in 2010, the Huntington Beach submarket bounced back in 2011 with 460 net move-ins. These move-ins brought the submarket to an occupancy rate of 95.8 percent, up 1.3 percentage points from 2010.

Average monthly rents rose 3.9 percent to $1.69 per square foot, while same-store rents rose 3.4 percent. Average monthly rents ended the year at $1,454.

Thirty-six new units were completed in 2011 as part of AMCAL Multi-Housing, Incorporated's Royale housing development. The development, which was AMCAL's first income-restricted project, opened in March. No new deliveries are anticipated for 2012.

Central Area

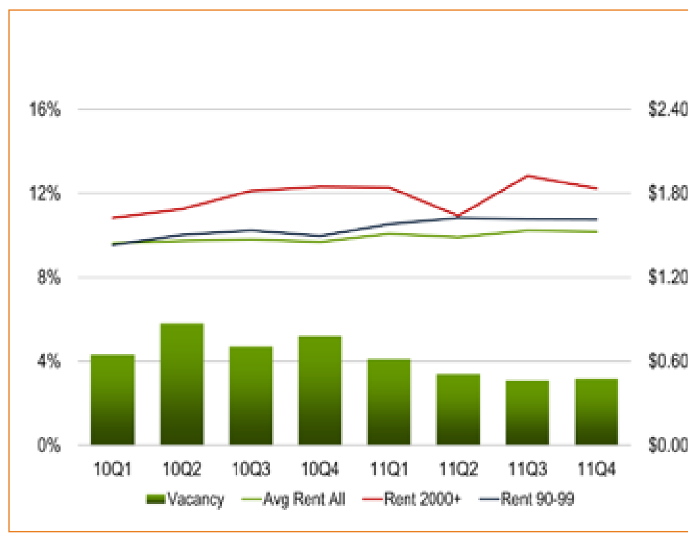
Central Orange County rebounded from its 30 net move-outs in 2010 with 110 net move-ins in 2011. Occupancy ended the year at 95.8 percent, up 1.3 percentage points. Average rents rose 1 percent to $1.55 per square foot, while same-store rents rose 2.4 percent. At the end of 2011, average monthly rents stood at $1,456.

No new units were added to the local supply in 2011, and no new deliveries are anticipated for 2011.

Vacancy Rate and Average Rent by Age of Apartment for Central Orange County

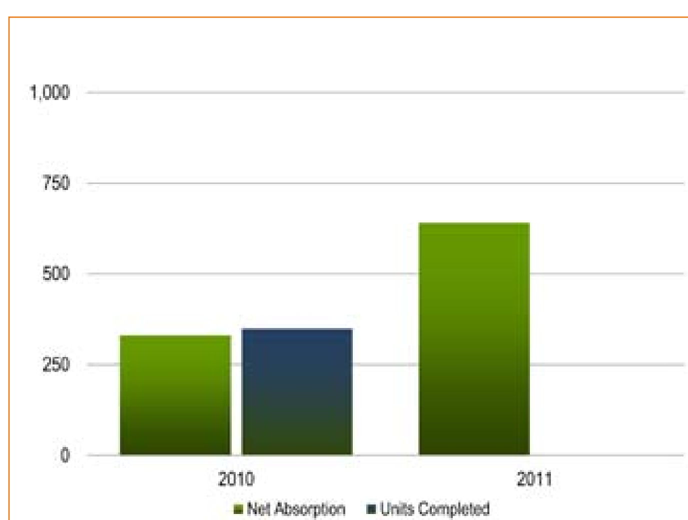
Source: MPF Research

Vacancy Rate and Average Rent by Age of Apartment for Santa Ana



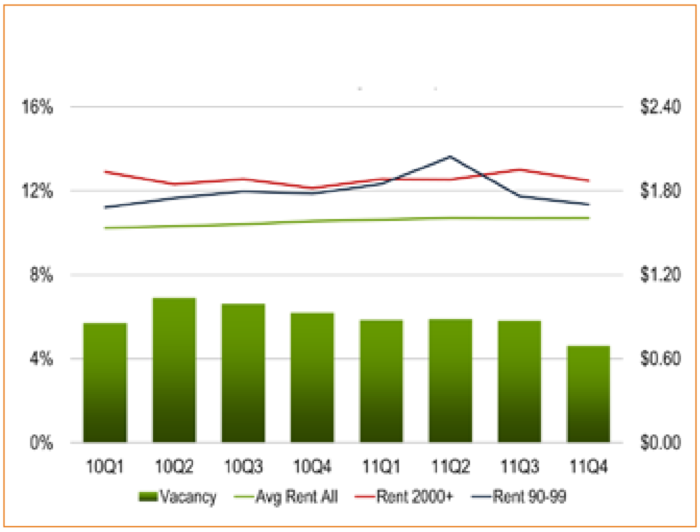
Source: MPF Research

New Supply and Net Absorption for Santa Ana



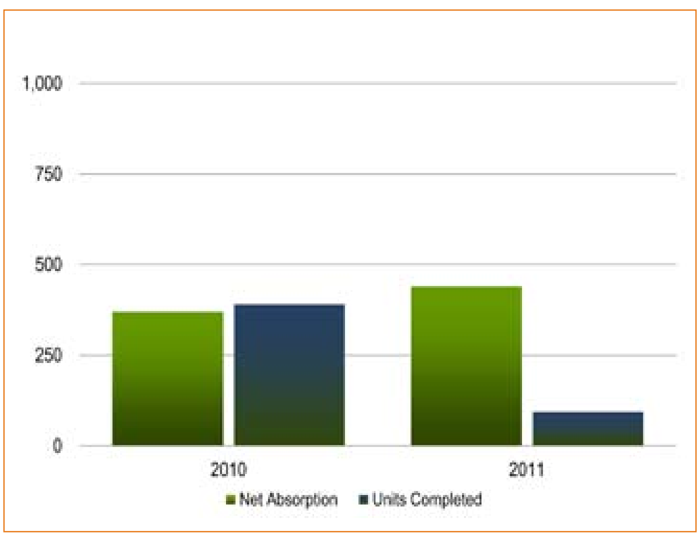
Source: MPF Research

Vacancy Rate and Average Rent by Age of Apartment for North Orange County



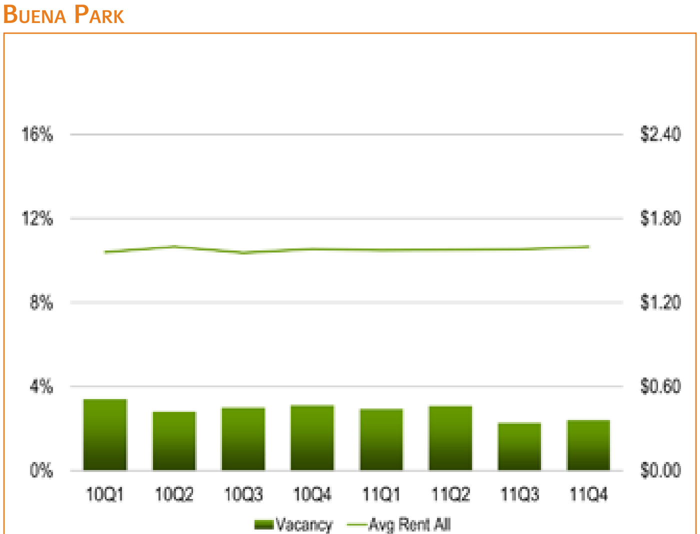
Source: MPF Research

New Supply and Net Absorption for North Orange County



Source: MPF Research

Vacancy Rate and Average Rent by Age of Apartment for Buena Park



Source: MPF Research

North Area

The North Area of Orange County includes two submarkets: North Orange County and Buena Park. North Orange County encompasses the cities of Fullerton, Brea Yorba Linda, La Habra, and their surrounding areas.

For the second year in a row, demand for multifamily units increased in North Orange County. The submarket recorded 440 net move-ins, which led to an increase in occupancy of 1.6 percentage points.

The occupancy rate stood at 95.4 percent at the end of 2011, third-lowest among Orange County submarkets. Average rents rose 1.3 percent to $1.60 per square foot, while same-store rents rose 2.3 percent. The average monthly rent at the end of 2011 was $1,326.

Buena Park fared a bit worse than North Orange County on the demand side, logging only 80 units of positive net absorption. Occupancy still jumped 0.8 percentage points to 97.6 percent, the highest level among submarkets. Average rents increased 1.0 percent to $1.60 per square foot – the same as North Orange County. Average monthly rents trailed North Orange County by a dollar. Same-store rents rose by 3.8 percent.

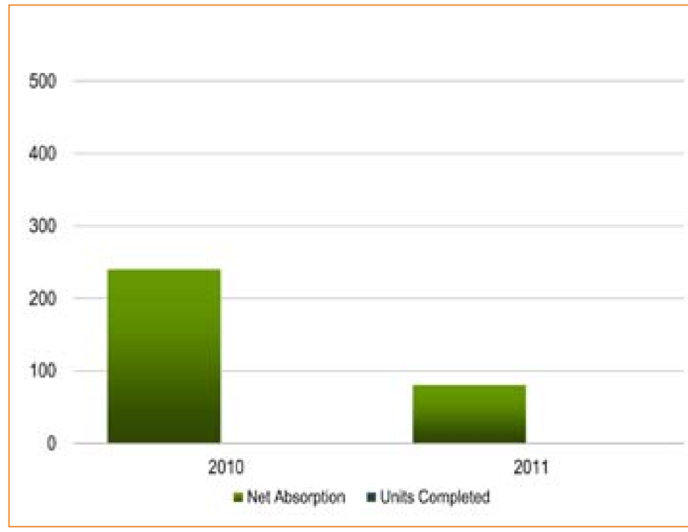
In 2011, North Orange County saw the delivery of 94 new units via Jamboree Housing Corporation's Bonterra in Brea. Bonterra provides affordable rental housing within the Blackstone master-planned community, and includes seven three-story buildings arranged around central courtyards. No new units are slated for delivery in 2012.

Buena Park did not receive any new units in 2011 and is not expected to receive any additional deliveries in 2012.

South Area

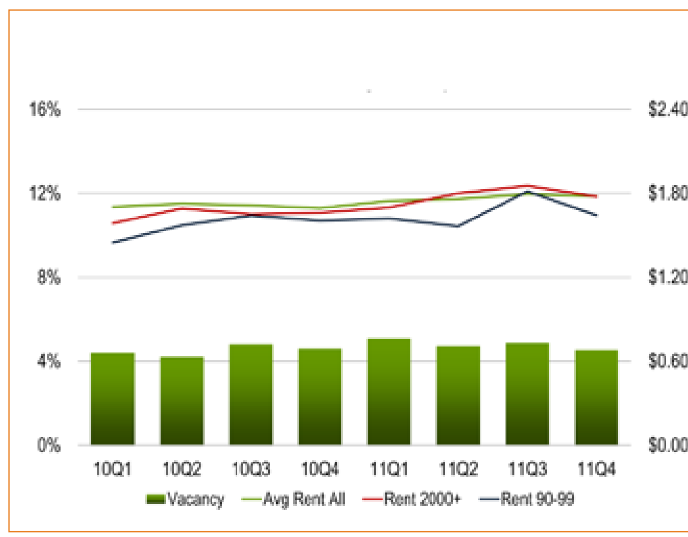
The South Area, experienced relatively weak demand compared to the other submarkets of Orange County. Mission Viejo, which experienced 100 net move-outs in 2010, logged only 30 net move-ins in 2011. South Orange County, which witnessed 50 net move-ins in 2010 and includes the cities of Laguna Beach, Dana Point, San Juan Capistrano, San Clemente, and their surrounding areas, followed up with a mere 10 net move-ins in 2011. Mission Viejo and South Orange County saw occupancy rise by 0.2 and 0.1 percentage points, respectively. At 95 percent occupancy, Mission Viejo has the second-lowest occupancy rate among submarkets, while South Orange County, at 95.5 percent occupancy, has the fourth-lowest occupancy rate.

New Supply and Net Absorption for Buena Park



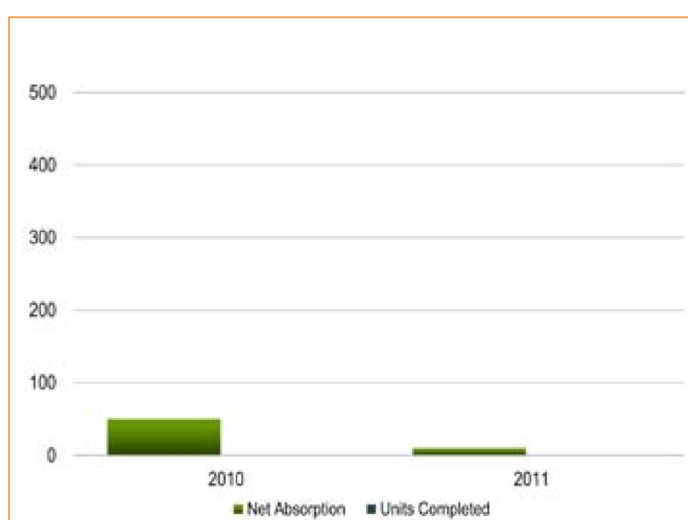
Source: MPF Research

Vacancy Rate and Average Rent by Age of Apartment for South Orange County



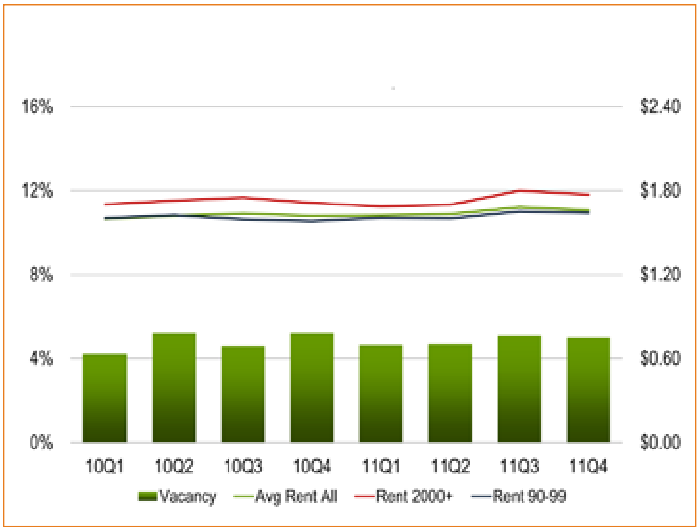
Source: MPF Research

New Supply and Net Absorption for South Orange County



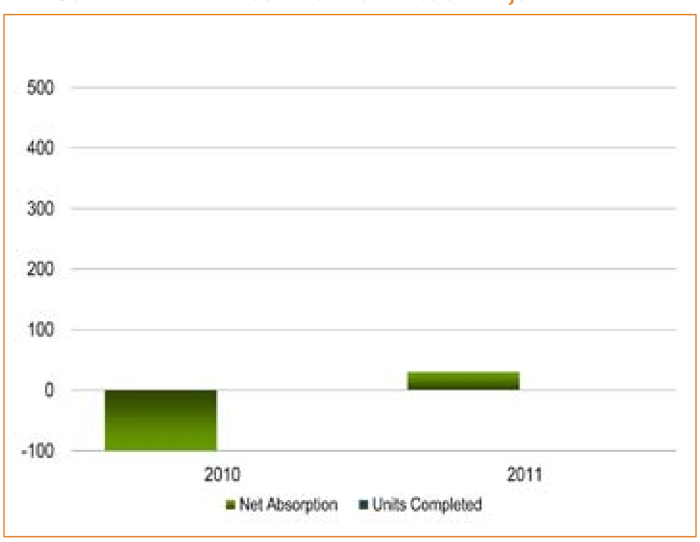
Source: MPF Research

Vacancy Rate and Average Rent by Age of Apartment for Mission Viejo



Source: MPF Research

New Supply and Net Absorption for Mission Viejo



Source: MPF Research

Rents grew in both submarkets during 2011. In Mission Viejo, average rents rose 2.5 percent to $1.66 per square foot. Same-store rents rose 3.3 percent. South Orange County experienced a 5 percent increase in average rents and a 5.8 percent increase in same-store rents. Average monthly rents ended the year in Mission Viejo and South Orange County at $1,503 and $1,608, respectively.

Neither submarket received any new units in 2011 and no further completions are anticipated for 2012.

After adding 3,187 new units in 2010, new deliveries dropped precipitously in 2011: only 263 new units were delivered across four submarkets. Completions are expected to bounce back again in 2012, with 2,883 anticipated deliveries. A staggering 97 percent of these completions will go on-line in the Irvine submarket. The remaining three percent are being constructed in Anaheim.

Inland Empire Multifamily Market Trends

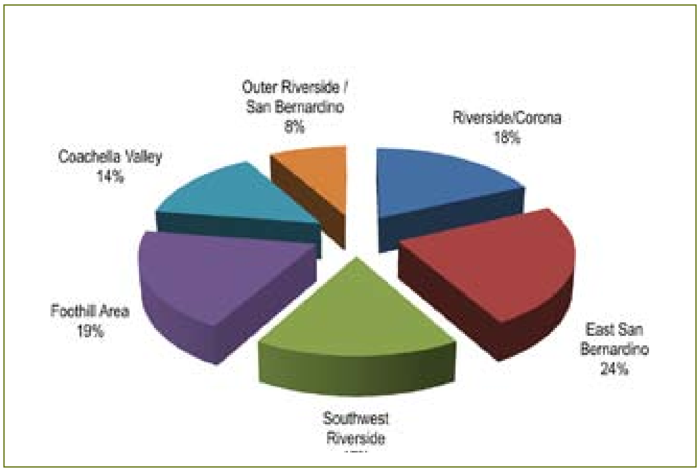
The Inland Empire, which includes San Bernardino and Riverside counties, has been devastated by the recession, registering one of the highest foreclosure rates in the country and heavy job losses. Since December 2010, the area has regained 26,100 nonfarm jobs, which has contributed to a decline in the unemployment rate of about 1.7 percentage points to 12.2 percent. Although the area still maintains the highest unemployment rate among the metro areas discussed in this report, the improvement in the labor market no doubt contributed to the overall improvement in the area's multifamily market. But high home sales and an active shadow market may have tempered what could have been an even larger gain.

The area registered 1,960 net move-ins for 2011 and saw occupancy rise 0.8 percent to 93.9 percent. Still, the occupancy rate remains the lowest among Southern California metro areas by a significant margin.

After logging the highest average and same-store rent increases in Southern California for 2010, the metro area's rent growth was less robust in 2011. Given the relative abundance of land and distance from major urban centers, rents in the Inland Empire are substantially lower than Los Angeles, Orange County, and San Diego. The region's average was $1,069 per month, or $1.22 per square foot. The Inland Empire was the only metro area to exhibit negative rent growth in any of its submarkets. Outer Riverside and San Bernardino Counties saw average and same-store rents fall by 6.8 percent and 0.4 percent, respectively. The area's top performer in average rents was the Riverside/Corona submarket; the Foothill area saw the strongest same-store rent growth at 3.8 percent.

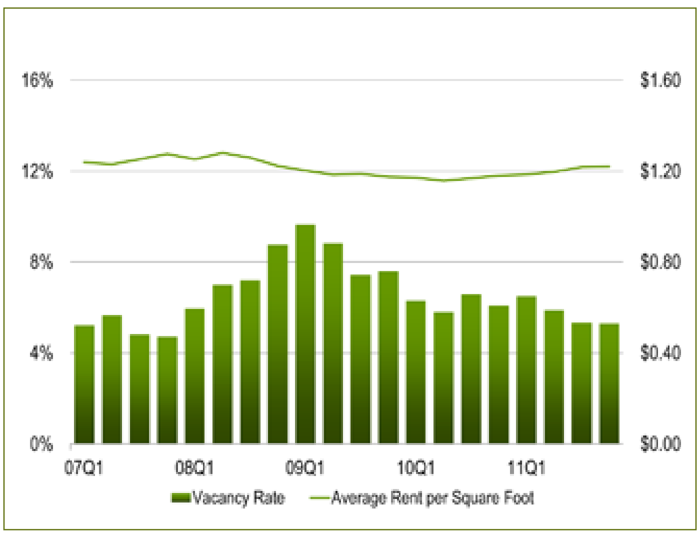
The Inland Empire's multifamily performance most likely came from shadow-market renters continuing their return to traditional multifamily product, either because of sale, foreclosure, or dissatisfaction with the shadow-market product.

Inland Empire Multifamily Submarket Shares



Source: MPF Research

Average Rents and Vacancy Rates in Inland Empire



Source: MPF Research

Annual Growth in Same-Store Rents for Inland Empire

Source: MPF Research

Construction Activity

Like Orange County, the Inland Empire saw a steep drop in completions during 2011. After receiving 2,068 new units in 2010, the area saw delivery of only 657 new units in 2011. The Riverside/Corona submarket was the only submarket without any completions. The East San Bernardino Submarket received more than half of the new supply, while the Coachella Valley area came in second with delivery of 116 units. All of the completed projects were senior- or family-oriented affordable housing.

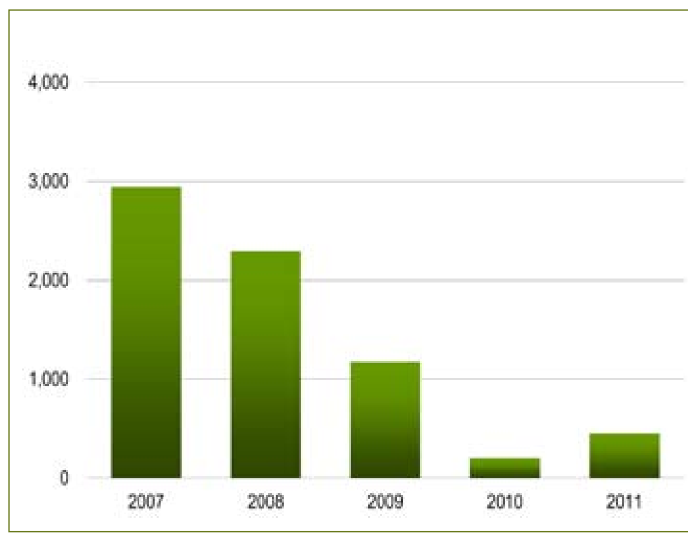
The largest of the new completions were Corporation for Better Housing's 120-unit Loma Linda Commons in Loma Linda, Meta Housing Corporation's 80-unit Magnolia at Highland in San Bernardino, and TELACU's Hacienda Senior in San Bernardino. East San Bernardino received about half of the completed units (381),

As of this writing, only 450 new units are scheduled for completion in 2012 across three submarkets: Southwest Riverside, the Foothill Area and Coachella Valley. Four hundred and four additional units are anticipated for delivery in 2013 via Watermarke Properties' Corona North Main in Corona.

New Supply and Net Absorption for Inland Empire

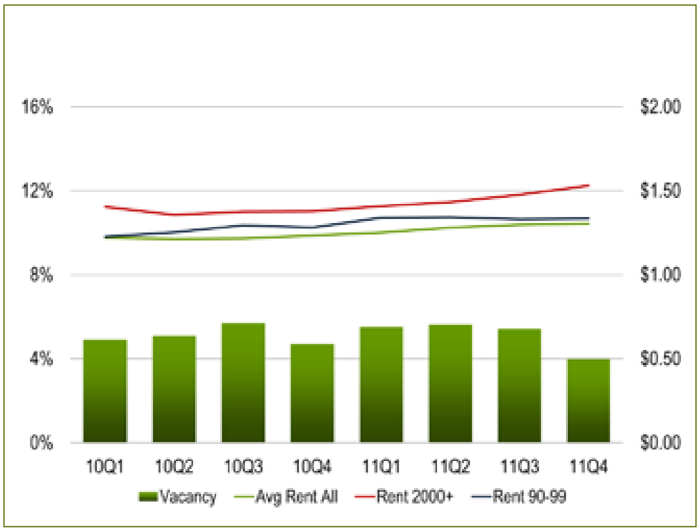
Source: MPF Research

Year-End Construction Activity in Units for Inland Empire



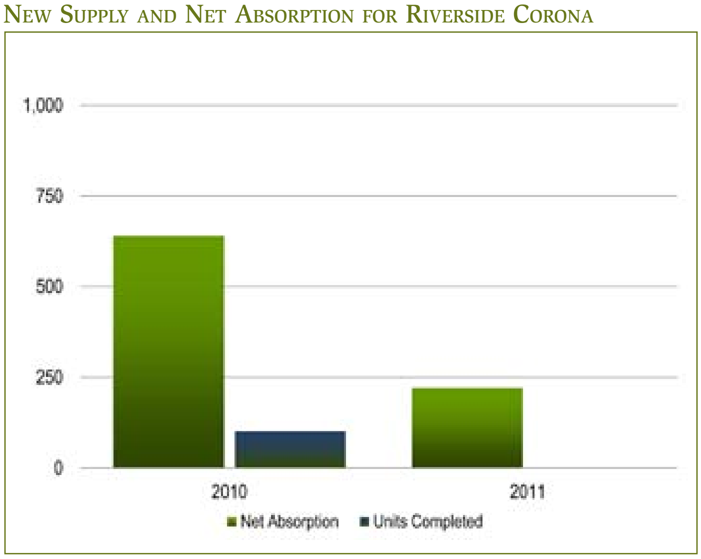
Source: MPF Research

Vacancy Rate and Average Rent by Age of Apartment for Riverside Corona



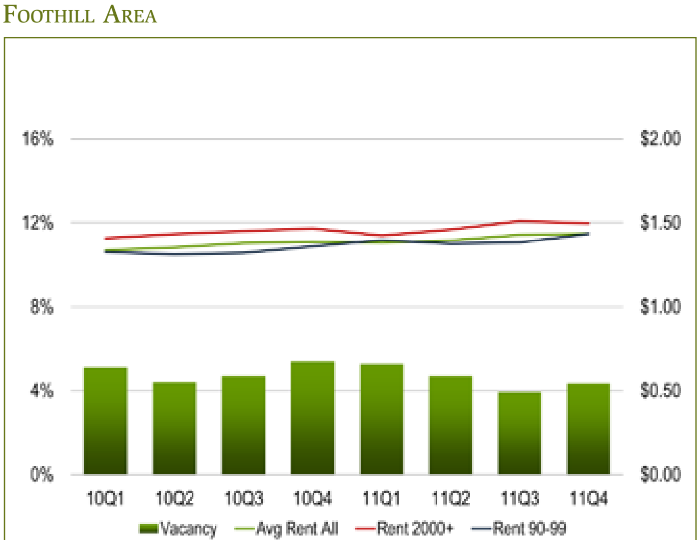
Source: MPF Research

New Supply and Net Absorption for Riverside Corona



Source: MPF Research

Vacancy Rate and Average Rent by Age of Apartment for Foothill Area



Source: MPF Research

Riverside/Corona

Riverside/Corona experienced 220 net move-ins for 2011, down about 65 percent from the 2010 total. Occupancy increased 0.7 percentage points to 96.0 percent, the highest in the region once again. The entire gain occurred as a result of demand activity in the fourth quarter. Average rents increased by 5.8 percent to $1.31 per square foot, which was the highest annual growth rate among Inland Empire submarkets. Same-store rent growth was the second highest in the two-county area, at 2.7 percent. Average monthly rents ended the year at $1,126.

The Riverside/Corona submarket was the only Inland Empire submarket to receive no new deliveries in 2011. No additional completions are expected for 2012. In August 2013, Watermarke Properties anticipates completion of the 404-unit Corona North Main.

Foothill Area

The upscale amenities and facilities in the Foothill area and its proximity to the Los Angeles job market support the region's apartment demand. During 2011, the submarket experienced 420 units of positive net absorption, about one-third fewer than in 2010. Occupancy subsequently rose 1.1 percentage points to 95.7 percent, the second-highest level among submarkets.

The Foothill area maintained the highest average rents in the region at $1.43 per square foot and $1,234 per month. Average rents grew 3.5 percent, while same-store rents grew 3.8 percent. The submarket's same-store rent growth was the highest among Inland Empire submarkets.

In 2011, The Foothill Area received 50 new units, via National Community Renaissance's Vista del Cielo project in Montclair. The project offers one-, two-, and three-bedroom apartments to individuals earning between 30 and 60 percent of the area median income. The Foothill Area expects to receive 192 additional units in 2012, via Lewis Companies' Santa Barbara development in Rancho Cucamonga. This project is part of the developer's Terra Vista master-planned development.

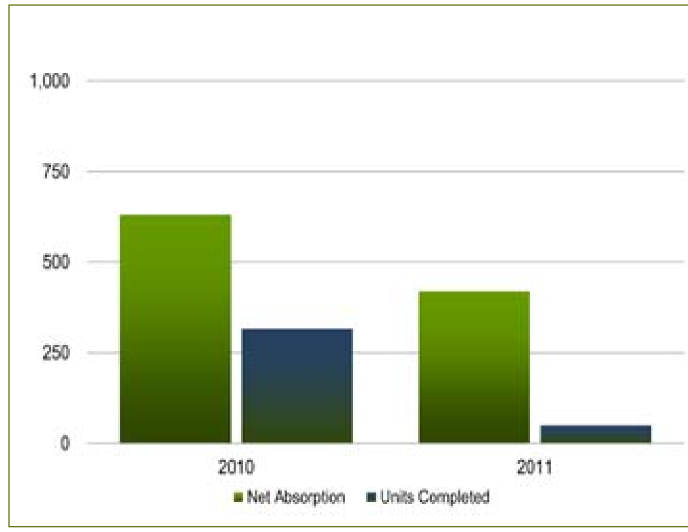
East San Bernardino County

For the second year in a row, East San Bernardino experienced the largest increase in demand among Inland Empire submarkets. The submarket logged another 690 net move-ins for 2011, and saw occupancy rise another 0.6 percentage points to 94.7 percent.

Average rents rose 4.4 percent to $1.10 per square foot, or $912 per month. Same-store rents rose 2.6 percent.

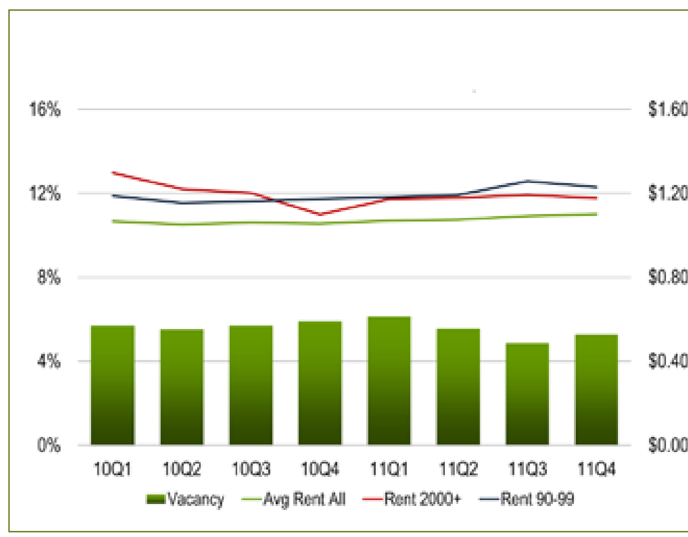
The East San Bernardino submarket witnessed the completion of 381 new units in 2011, via five age- and/or income-restricted projects. In January, TELACU finished its 75-unit Hacienda Senior community, while in July, The Corporation for Better Housing completed its 120-unit, senior-oriented Loma Linda Commons. In December, Meta Housing Corporation completed the senior-oriented Magnolia at Highland development. As of this writing, no additional units are expected for delivery in 2012.

New Supply and Net Absorption for Foothill Area



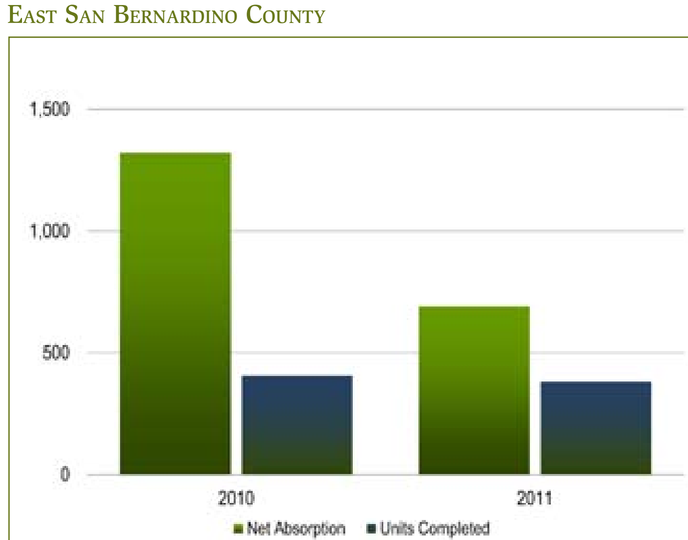
Source: MPF Research

Vacancy Rate and Average Rent by Age of Apartment for East San Bernardino County



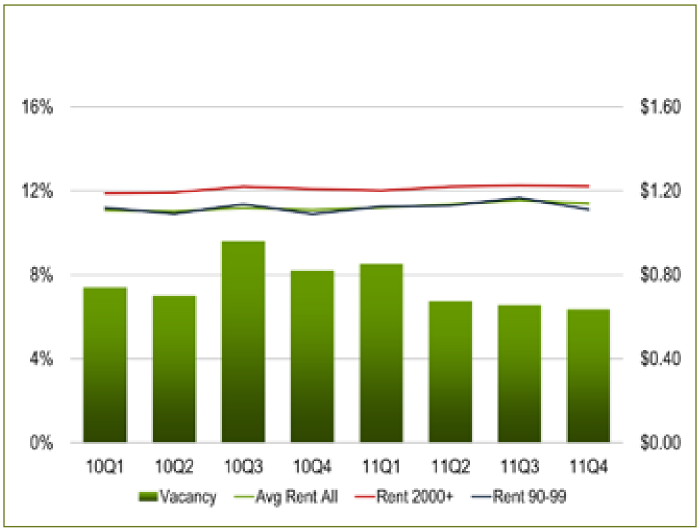
Source: MPF Research

New Supply and Net Absorption for East San Bernardino County



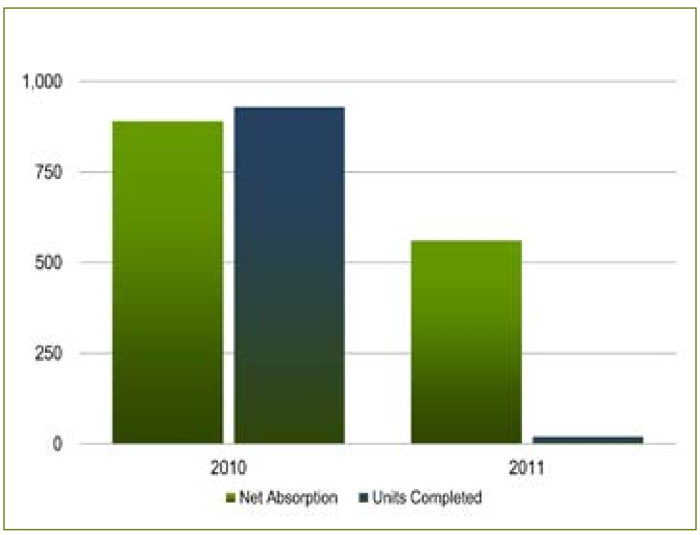
Source: MPF Research

Vacancy Rate and Average Rent by Age of Apartment for Southwest Riverside



Source: MPF Research

New Supply and Net Absorption for Southwest Riverside



Source: MPF Research

Southwest Riverside

For the second year in a row, Southwest Riverside County has experienced the second strongest increase in demand among Inland Empire submarkets. Net absorption was positive 560 units – about two-thirds the level recorded in 2010.

Occupancy rose by 1.8 percentage points to 93.6 percent, moving the submarket from the lowest to the third-lowest occupancy rate among Inland Empire submarkets.

Average rents rose 2.7 percent to $1.10 per square foot or $1,022 per month. Same-store rents rose 2.1 percent.

After receiving 929 new units in 2010, the Southwest Riverside County submarket saw only 20 completions in 2011. In February, Bridge Housing Corporation completed Summerhouse I, an affordable housing community located in Temecula. Another 196 units are slated for delivery in 2012 across three projects. The largest of these projects is the 113-unit Pottery Court in Lake Elsinore. The developer, Bridge Housing, is a San Francisco-based nonprofit specializing in affordable housing. The community will offer one- to three-bedroom units for individuals and families whose annual income falls between $10,594 and $41,550.

Coachella Valley

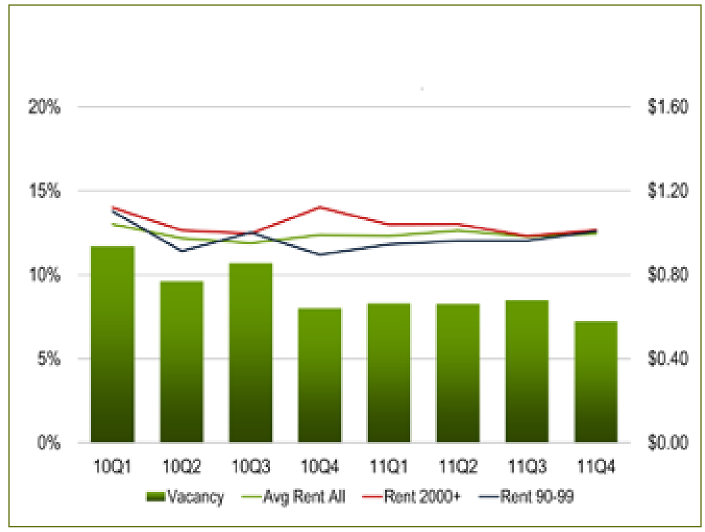
In 2011, the Coachella valley recorded 310 net move-ins, about 60 percent of the 2010 total. Occupancy was up 0.8 percentage points to 92.8 percent, but remained the second lowest among Inland Empire submarkets. Like the Riverside/Corona submarket, strong demand in the fourth quarter erased a loss in occupancy earlier in the year.

Average rent growth was a relatively weak 0.5 percent in 2011, but nevertheless was an improvement over its 2010 performance. Same store rents rose 1.6 percent. Average rents ended the year at $1.00 per square foot or $911 per month. The Coachella Valley experienced the weakest performance among submarkets with positive rent growth.

In 2011, 116 units of new supply were delivered via two projects. In May, National Community Renaissance completed the 59-unit River Canyon project in Cathedral City and Coachella Valley Housing Coalition completed the 57-unit Rosa Gardens in Palm Springs.

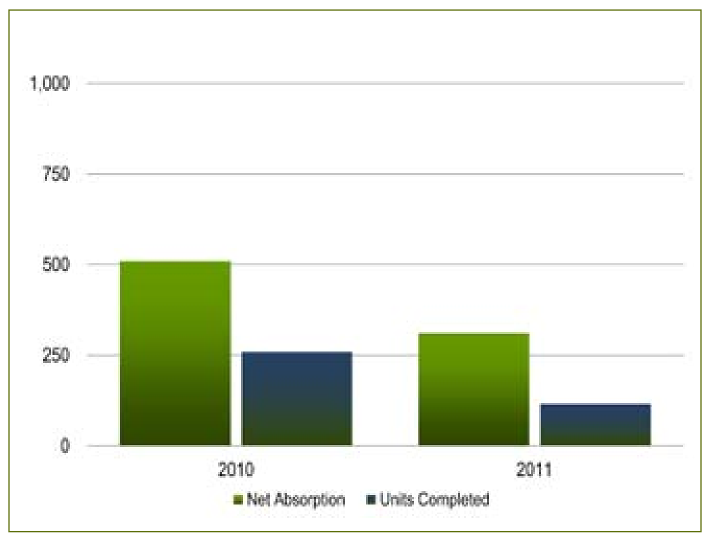
In May of 2012, Coachella Valley Housing Coalition is expected to deliver the 62-unit Brisas de Paz in Desert Hot Springs.

Vacancy Rate and Average Rent by Age of Apartment for Coachella Valley



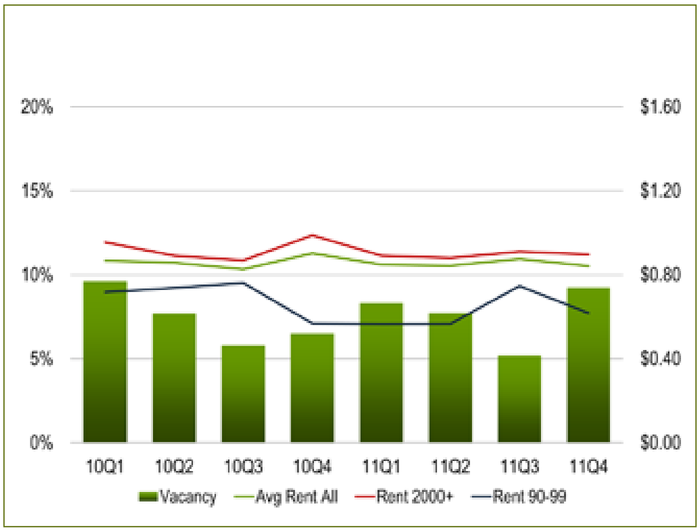
Source: MPF Research

New Supply and Net Absorption for Coachella Valley



Source: MPF Research

Vacancy Rate and Average Rent by Age of Apartment for Outer Riverside San Bernardino



Source: MPF Research

New Supply and Net Absorption for Outer Riverside San Bernardino

Source: MPF Research

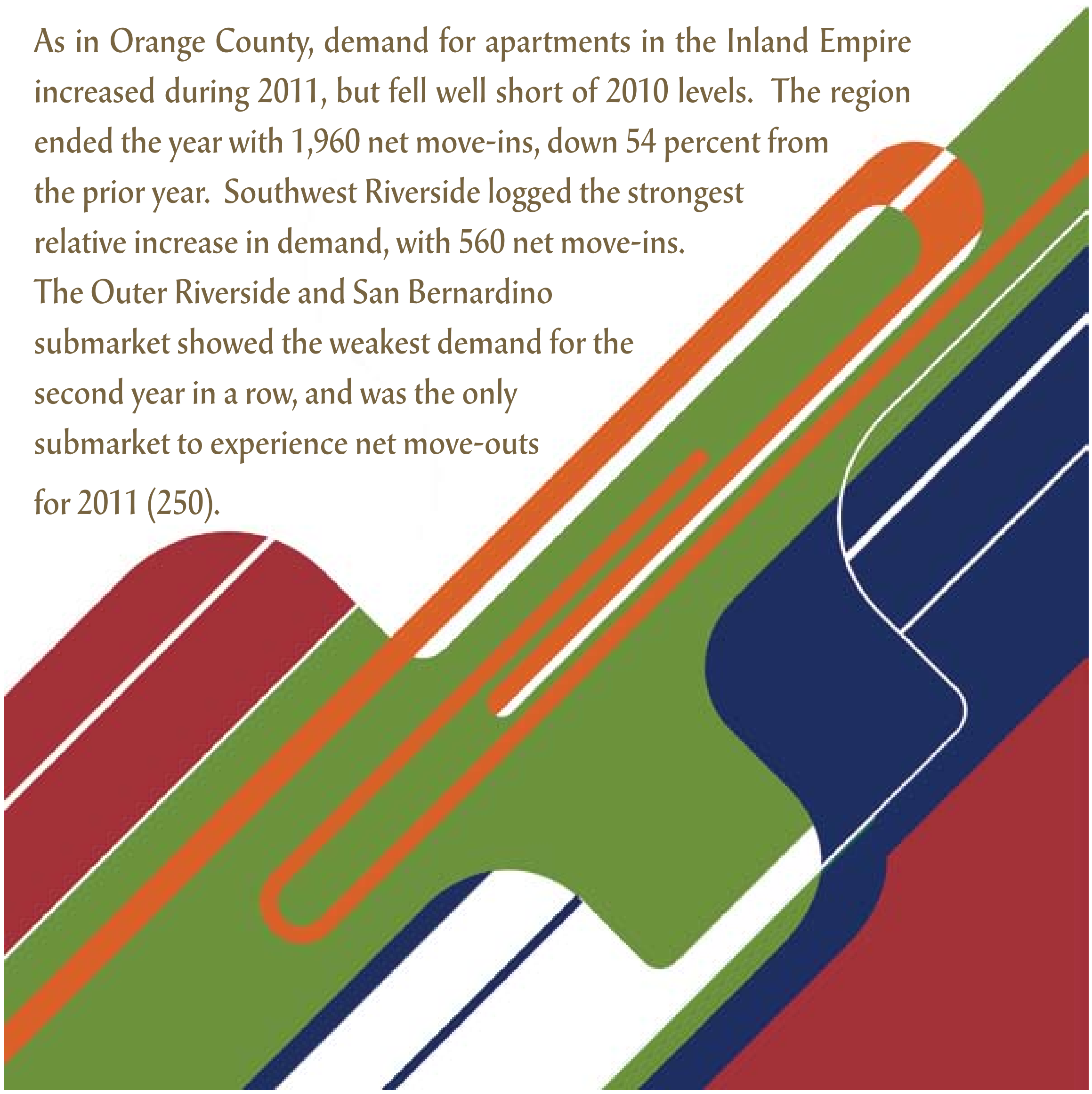
Outer Riverside/San Bernardino

The Outer Riverside/San Bernardino submarket holds the dubious distinction of being the only submarket in the Southern California region to experience a decline in demand and average rents in 2011. The submarket lost most of the ground it gained in 2010 with 250 net move-outs and a drop in occupancy of 2.7 percentage points. At 90.8 percent, the submarket has the lowest occupancy rate of all Southern California submarkets. The overall drop in occupancy came as a result of weak demand in the fourth quarter.

The submarket experienced a 6.8 percent decline in average rents to $0.84 per square foot, or $766 per month. At $766 per month, the average monthly rent level is the lowest in the Inland Empire by $145 and the lowest among Southern California submarkets included in this report.

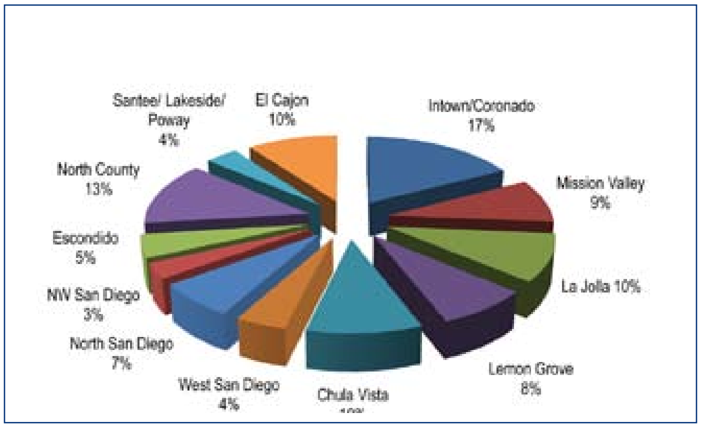
Two projects totaling 90 (affordable) units were completed in 2011: Pacific Companies' 48-unit Rodeo Drive Meadows in Victorville and Urban Housing Communities' 42-unit Crossings at Big Bear Lake. The projects were completed in August and September, respectively. No additional deliveries are anticipated for 2012.

As in Orange County, demand for apartments in the Inland Empire increased during 2011, but fell well short of 2010 levels. The region ended the year with 1,960 net move-ins, down 54 percent from the prior year. Southwest Riverside logged the strongest relative increase in demand, with 560 net move-ins. The Outer Riverside and San Bernardino submarket showed the weakest demand for the second year in a row, and was the only submarket to experience net move-outs for 2011 (250).



San Diego Multifamily Market Trends

San Diego County Multifamily Submarket Shares

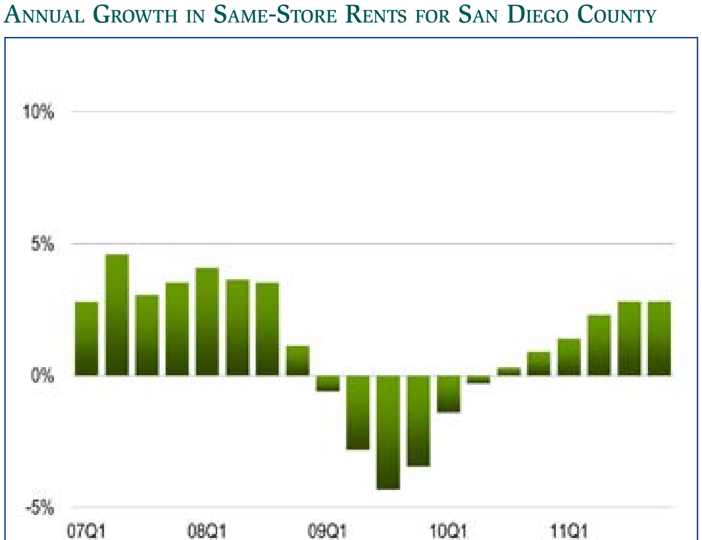


Source: MPF Research

Average Rents and Vacancy Rates in San Diego County

Source: MPF Research

Annual Growth in Same-Store Rents for San Diego County



Source: MPF Research

The second largest county in California, San Diego County is home to more than three million people.

The city of San Diego has long been one of the fastest-growing cities in the nation and remains a desirable place to live because of its diverse economy, first-rate educational institutions, and high quality of life. Although San Diego has not been immune to the effects of the financial crisis, it weathered the period from 2007 to 2009 better than most of the Southern California markets. Nonfarm payrolls were up by 11,700 in 2011, and for the second year in a row, the services sector was responsible for the majority of the new jobs created. The metro area continues to maintain the second lowest unemployment rate among the metro areas discussed in this report, at 8.9 percent.

Like the other Southern California metro markets, San Diego experienced a continuing trend of increasing demand. The area logged 4,070 net move-ins, up 19 percent from the prior year. Occupancy stood at 96.8 percent, up 1.4 percentage points from 2010, and remained the highest in Southern California. Like Los Angeles County, most of the increase in demand came in the third quarter of 2011. And like Orange County, the overall increase was most likely a result of improved labor market performance combined with a lack of home affordability. Occupancy ranged from a low of 95.5 percent in Intown/Coronado to a high of 97.7 percent in West San Diego. Intown/Coronado experienced the largest increase in demand, with 2,010 net move-ins, while La Jolla/University City performed the worst, with 40 net move-outs.

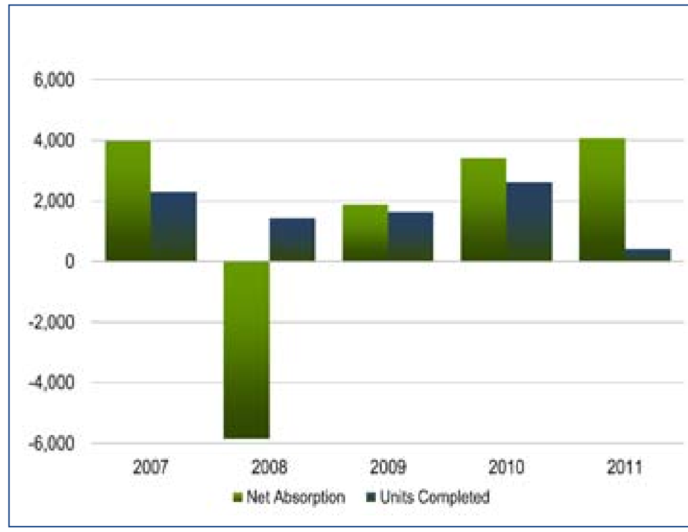
San Diego experienced a 4.3 percent increase in average rents, bringing the rent level to $1.59 per square foot or $1,377 per month. On a per-square-foot basis, Intown/Coronado and Northwest San Diego/Encinitas have the highest rents among submarkets, at $2.04 and $1.82, respectively. At 10.4 percent, Intown/Coronado experienced the highest average rent growth for 2011. Northwest San Diego/Encinitas and Escondido submarkets shared the distinction of highest same-store rent growth for 2011, at 4.7 percent.

Construction Activity

Like Orange County and the Inland Empire, San Diego experienced a precipitous drop in completions in 2011. Only 407 new units were delivered across six projects. The projects ranged in size from 50 to 92 units and all of them were income-restricted. Actual completions fell well short of the 1,051 units anticipated for completion at the time of the writing of last year's report. Garden Communities' 644-unit Greenfield Village in the Chula Vista/Imperial Beach submarket remains under construction and is anticipated for completion in July 2012.

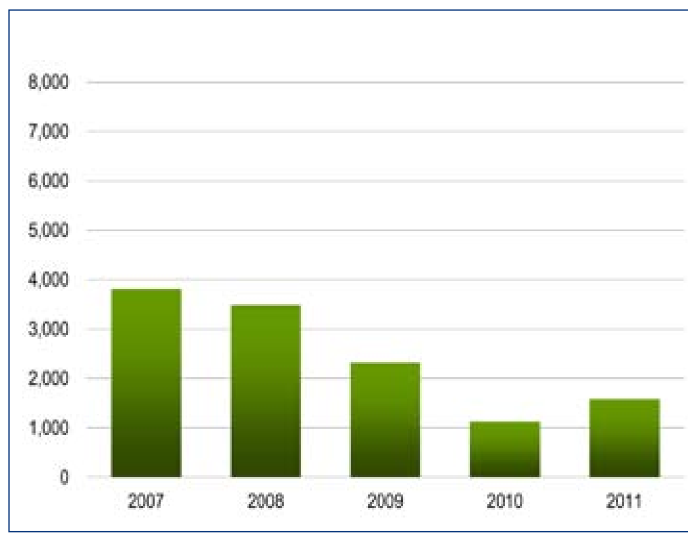
In addition to Greenfield Village, the San Diego metro area expects to receive 939 new units in 2012 across 6 projects. Three additional projects of 220 units or more are expected to come online in 2013. The largest of the projects slated for completion in 2012 are Wood Partners' 379-unit Alta Centrum in the North San Diego submarket, Dinerstein Companies' 320-unit Sterling Alvarado in the Mission Valley submarket, and Chelsea Investment Corporation's Estrella del Mercado in the Lemon Grove/National City submarket.

New Supply and Net Absorption for San Diego County



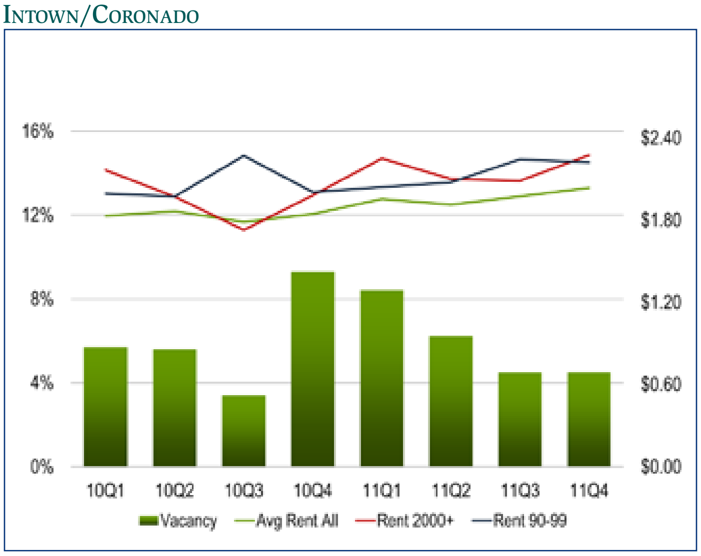
Source: MPF Research

Year-End Construction Activity in Units for San Diego County



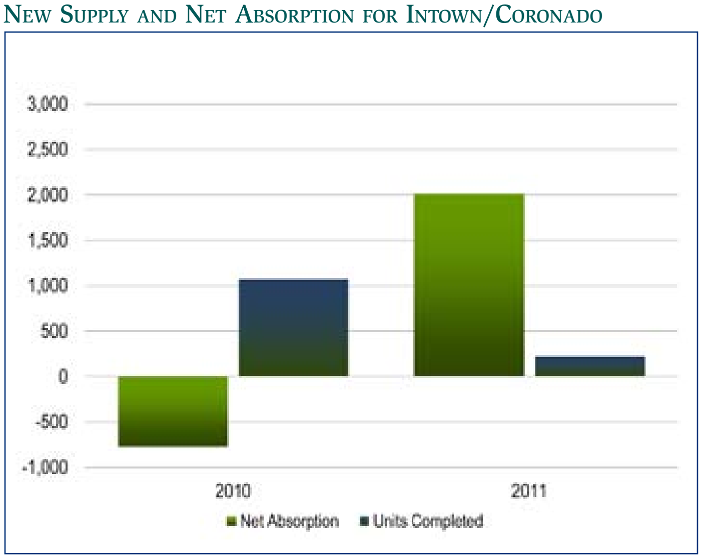
Source: MPF Research

Vacancy Rate and Average Rent by Age of Apartment for Intown/Coronado



Source: MPF Research

New Supply and Net Absorption for Intown/Coronado



Source: MPF Research

Intown/Coronado

The Intown/Coronado submarket made up the ground it lost in 2010 with 2,010 net move-ins in 2011. Although occupancy rose 4.8 percentage points to 95.5 percent, the occupancy level remained the lowest among San Diego County submarkets.

To go along with the largest increase in demand among San Diego submarkets, Intown/Coronado recorded the largest increase in average rents as well. The 10.4 percent increase put average rents per square foot at $2.04, the highest level by about $0.22. Average monthly rents stood at $1,484. Same-store rents rose 3.3 percent, which was in the middle of the pack.

Overall, Intown/Coronado has experienced the greatest volatility in rents over the last 4 years, registering the only rent decrease among submarkets in 2008, the only rent increase in 2009, the largest average rent decrease within mixed market performance in 2010, and the largest average rent increase in a rising market in 2011.

Construction Activity

The urban San Diego submarket of Intown/Coronado received 222 units across three projects in 2011.

Price Charities' City Heights Square III, which was completed in October, provides 92 units of low- and very low-income senior housing. In December, ROEM Development Corporation completed Cedar Gateway, a 65-unit mixed-use development which includes affordable family apartments, homes for mentally disabled adults, and 4,300 square feet of retail space. Also in December, Father Joe's Villages completed the 12-story, 65-unit 15th & Commercial project, which includes single-room, affordable dwellings for the homeless working to get back on their feet, dormitory-style transitional housing, and a day care facility for the children of homeless families.

Seventy-one additional units are anticipated for completion in 2012 via two projects: the 40-unit Villa Cusma, and Affirmed Housing Group's 31-unit City View. With LEED certification in mind, the City View project will feature solar panels on the roof and a below grade parking lot will include special parking for those utilizing sustainable driving methods (such as carpooling, biking and motorcycles).

One additional project totaling 224 units is anticipated for delivery in 2013, the Ariel Suites at West Beech Street and Kettner Boulevard.

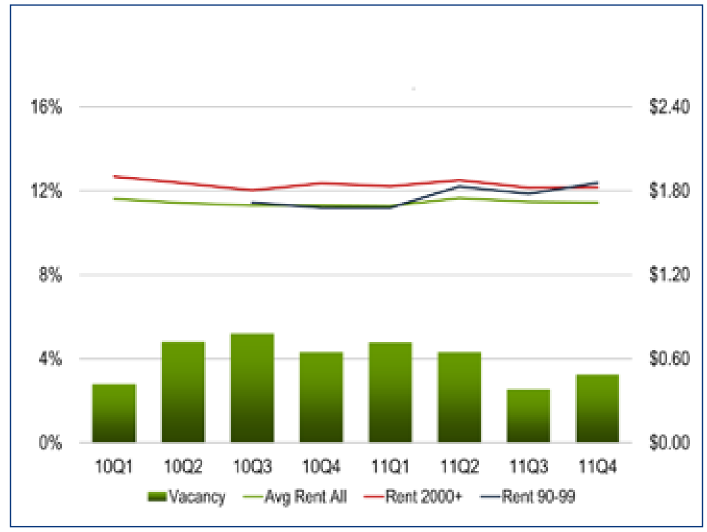
Mission Valley

Mission Valley experienced positive demand growth in 2011, with 220 net move-ins. The occupancy rate subsequently rose 1.1 percentage points to 96.8 percent. Net move-ins were about half the number recorded in 2010.

Average rents rose 1.2 percent to $1.72 per square foot, while same-store rents rose 4.3 percent. Average monthly rents stood at $1,511 at the end of 2011.

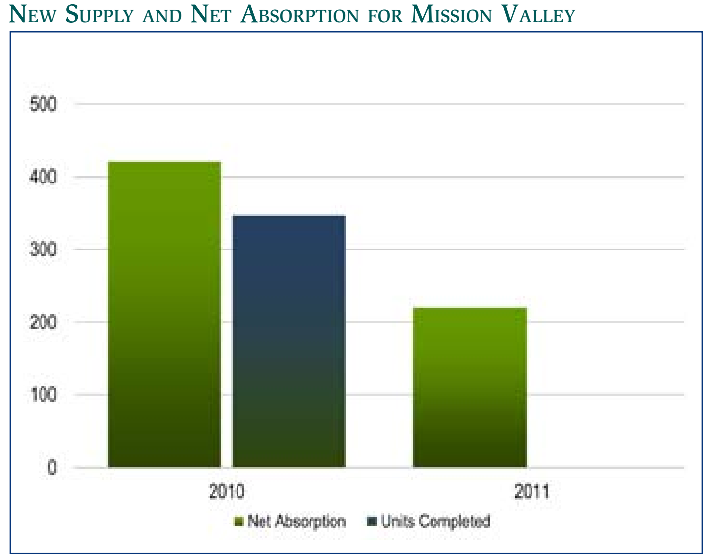
No new units were delivered in 2011. In 2012, Mission Valley anticipates delivery of 320 new units with the completion of Dinerstein Companies' Sterling Alvarado, a modern, mid-rise, student housing apartment complex located near San Diego State University.

Vacancy Rate and Average Rent by Age of Apartment for Mission Valley



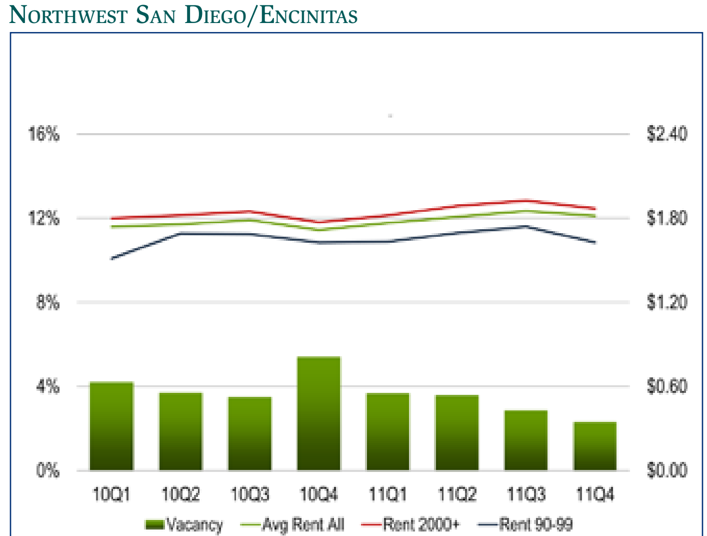
Source: MPF Research

New Supply and Net Absorption for Mission Valley



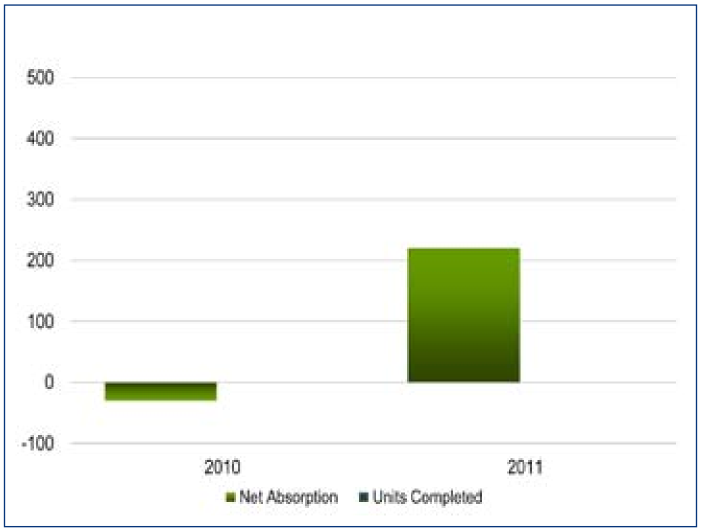
Source: MPF Research

Vacancy Rate and Average Rent by Age of Apartment for Northwest San Diego/Encinitas



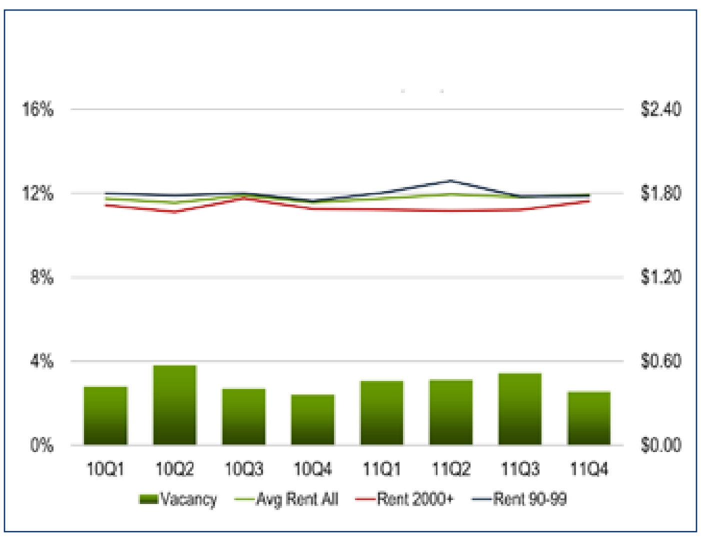
Source: MPF Research

New Supply and Net Absorption for Northwest San Diego/Encinitas



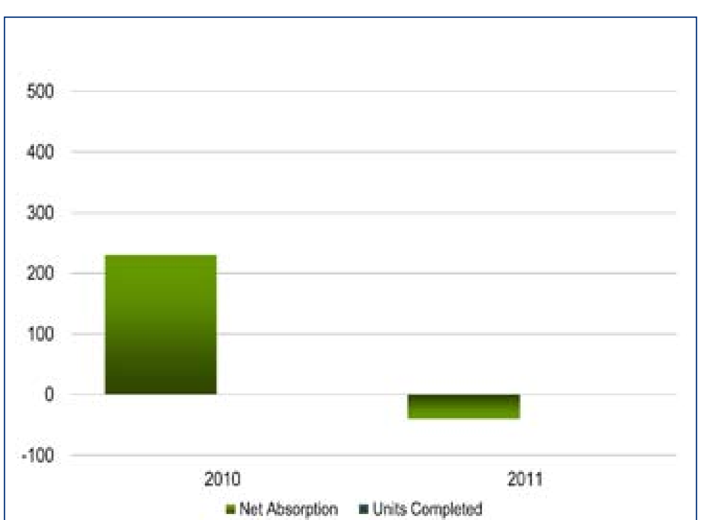
Source: MPF Research

Vacancy Rate and Average Rent by Age of Apartment for La Jolla/University City



Source: MPF Research

New Supply and Net Absorption for La Jolla/University City



Source: MPF Research

Coastal Communities

The coastal communities region encompasses the northern coastal region of Northwest San Diego/Encinitas and extends south to the La Jolla/University City area. Northwest San Diego/Encinitas was clearly the stronger performer of the two in both demand and rents. Northwest San Diego/Encinitas logged 200 net move-ins during 2011, a turnaround from the 30 net move-outs experienced in 2010. Occupancy rose 3.1 percentage points to 97.7 percent, the third highest level among San Diego submarkets. La Jolla/ University City, on the other hand, witnessed 40 net move-outs, leading to a decline in occupancy of 0.1 percentage point. At 97.5 percent, the submarket is tied for the fourth-highest occupancy rate among San Diego submarkets. In 2010, the La Jolla/University City submarket had borne the highest occupancy rate in the county.

On the rent side, Northwest San Diego/Encinitas experienced a 5.9 percent average increase and a 4.7 percent same-store increase for 2011. Average rents ended the year at $1.82 per square foot and $1,768 per month. La Jolla/University City, witnessed a 3.1 percent increase in average rents and a 1.2 percent increase in same-store rents. Average rents ended the year at $1.79 per square foot and $1,661 per month.

Neither area experienced an increase in supply in 2011 and no new completions are anticipated for 2012.

Interstate 15 Corridor

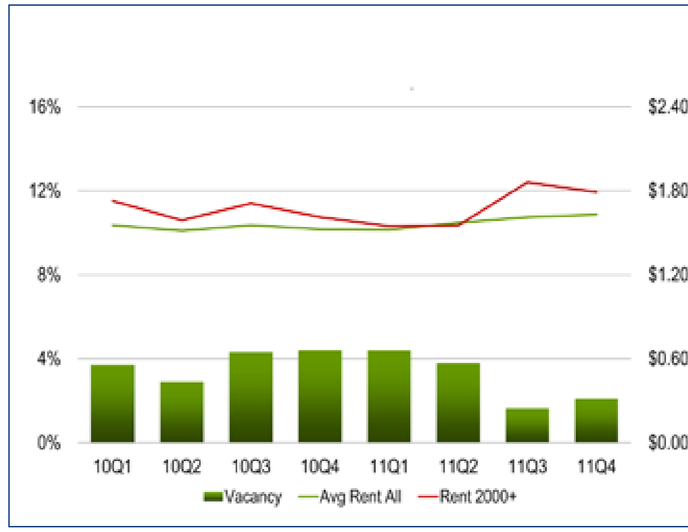
The Interstate 15 Corridor includes the North and West San Diego submarkets. The North San Diego submarket extends up the Interstate 15 Freeway north to Rancho Bernardo and south to Qualcomm Stadium, with Mira Mesa Boulevard roughly bisecting the submarket. Neighborhoods in North San Diego include Rancho Penasquitos, Sabre Springs, Mira Mesa, Scripps Ranch, and Serra Mesa. The West San Diego submarket is bordered by SR-52 to the north, I-5 to the west, and SR-163 to the east.

While both North and West San Diego experienced improvements in rents and demand during 2011, West San Diego clearly outpaced North San Diego. West San Diego registered 220 net move-ins, raising the occupancy rate by 1.3 percentage points. The occupancy rate had climbed as high as 98.4 percent, before dropping back slightly to end the year at 97.9 percent. This figure stands as the highest occupancy rate among San Diego submarkets. North San Diego recorded 120 net move-ins, down from the 580 logged in 2010. The occupancy rate subsequently rose 0.7 percentage points to 96.0 percent, the second lowest level among San Diego submarkets.

At 6.8 percent and 5.5 percent, West San Diego recorded the second-highest average rent increase and highest same-store rent increase, respectively, among San Diego submarkets. Average rents ended the year at $1.63 per square foot and $1,287 per month. North San Diego saw an increase in average rents of 2.4 percent and a same-store rent increase of 1.7 percent. Average rents ended the year at $1.69 per square foot and $1,505 per month.

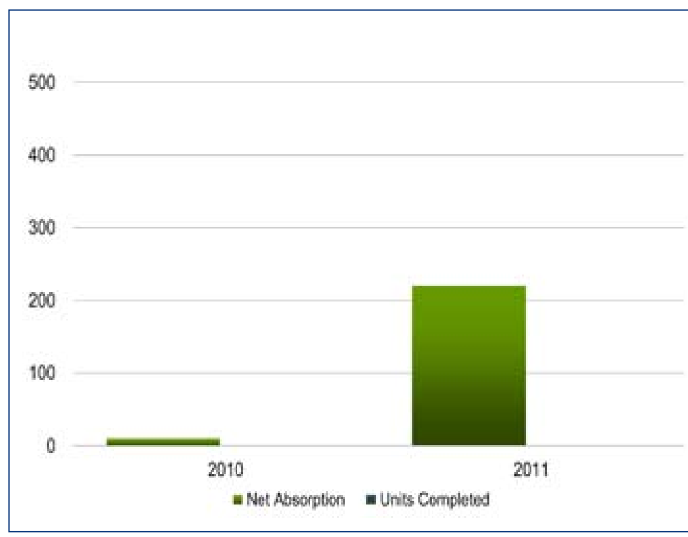
Neither submarket experienced any new deliveries in 2011. North San Diego expects completion of 379 new units in 2012 via Wood Partners' Alta Centrum. Wood Partners bought the project from Sunroad Centrum Residential in 2010 for $21.5 million (per M/PF Research). In the West San Diego submarket, an additional 544 units are slated for completion in 2013 via Carmel Partners' Pacific Ridge development, while in North San Diego, an additional 306 units are scheduled for delivery in 2013 via Sudberry Properties' Circa 37 project. Circa 37 is part of the Civita master-planned development.

Vacancy Rate and Average Rent by Age of Apartment for West San Diego



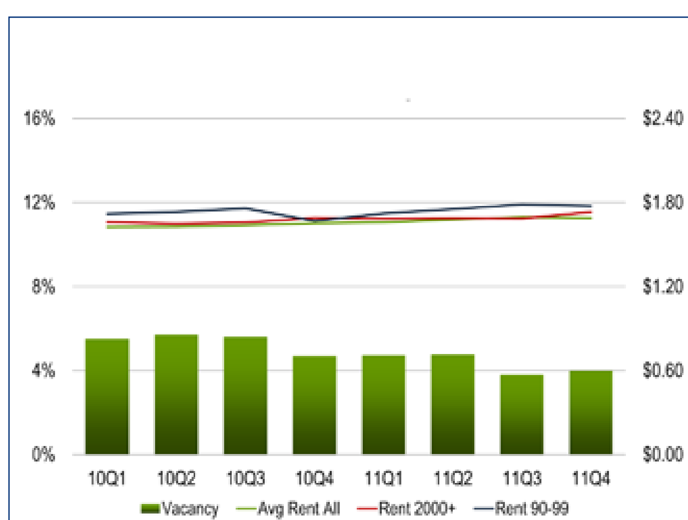
Source: MPF Research

New Supply and Net Absorption for West San Diego



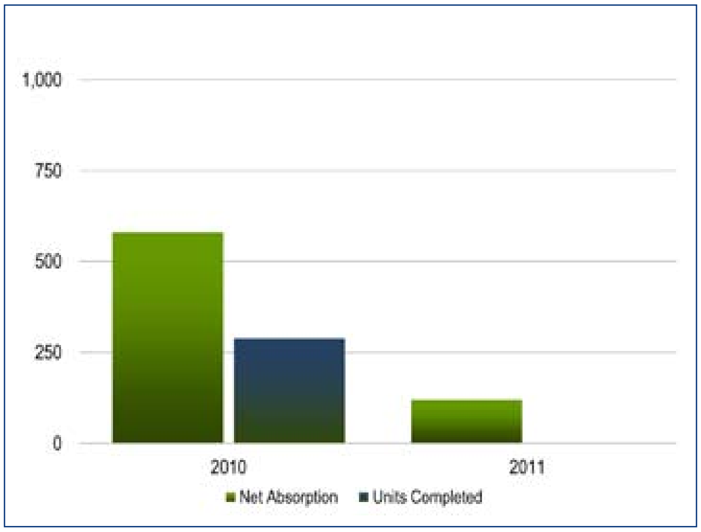
Source: MPF Research

Vacancy Rate and Average Rent by Age of Apartment for North San Diego



Source: MPF Research

New Supply and Net Absorption for North San Diego

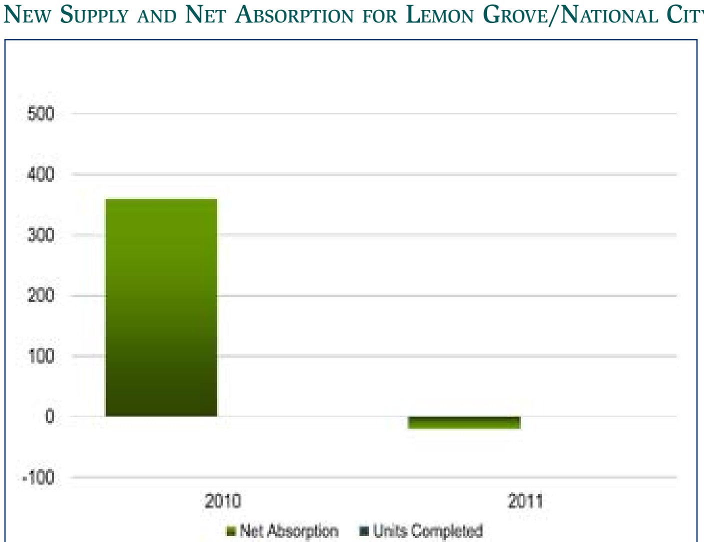


Source: MPF Research

Vacancy Rate and Average Rent by Age of Apartment for Lemon Grove/National City

Source: MPF Research

New Supply and Net Absorption for Lemon Grove/National City



Source: MPF Research

San Diego South

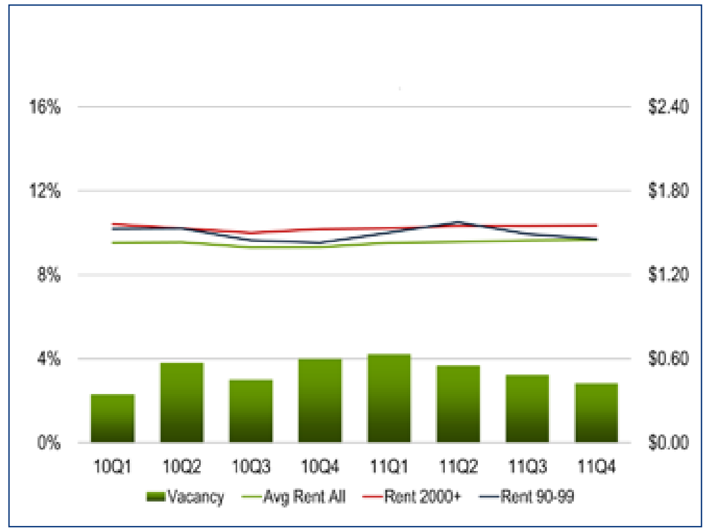
The southern region of San Diego is comprised of the Chula Vista/Imperial Beach and Lemon Grove/National City areas. The Chula Vista/Imperial Beach area clearly outperformed the Lemon Grove/National City submarket. Chula Vista/Imperial Beach recorded an increase in demand for the second straight year, with 360 net move-ins. Occupancy rose 1.2 percentage points to end the year at 97.2 percent. Lemon Grove/National City, on the other hand, was one of only two submarkets to experience a decline in demand. The submarket logged 20 net move-outs, leading to a 0.1 percentage-point decline in the occupancy rate. The submarket finished the year at 96.3 percent occupancy.

On the rent side, Chula Vista/Imperial Beach recorded a 3.6 percent increase in average rents and a 4.0 percent increase in same-store rents. The average rent per square foot stood at $1.45 at the end of 2011, while the average monthly rent stood at $1,305. Lemon Grove/National City experienced an average rent increase of 1.1 percent and a same-store rent increase of 3.0 percent. The average rent per square foot ended the year at $1.34, tied with Escondido for the lowest level among the submarkets discussed in this report. At the end of 2011, the average monthly rent stood at $1,077.

Chula Vista/Imperial Beach received 130 of the scheduled 774 units anticipated for delivery in 2011. Garden Communities' 644-unit Greenfield Village, a 14-building luxury apartment community located near the intersection of the I-805 and I-905, is now anticipated for completion in July 2012. In June 2011, Chelsea Investment Corporation completed the 80-unit Verbena Family project in San Ysidro, which offers two-bedroom flats located above garages and 53 three-bedroom townhouse units for low and very low income families. In July, Affirmed Housing Group completed its Riverwalk development. The 50-unit affordable community features a community room, on-site laundry facility, computer learning center/homework lab and a children's tot-lot.

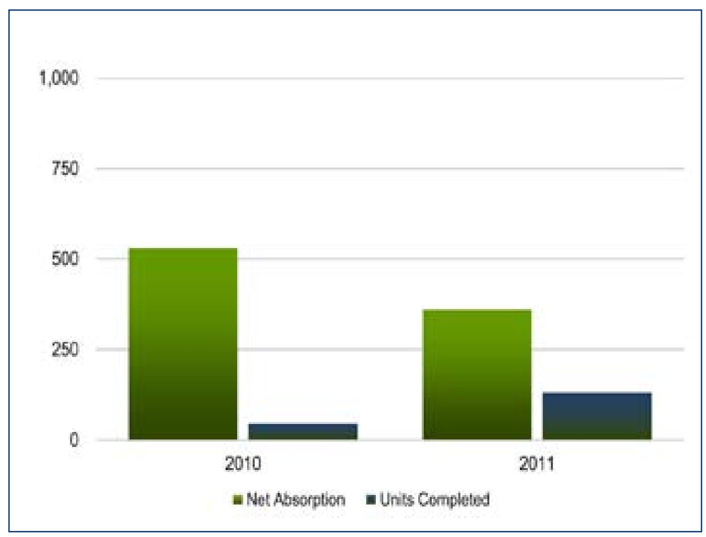
Lemon Grove/National City did not receive any new supply in 2012, but plans to add 92 units in 2012 via Chelsea Investment Corporation's Estrella del Mercado project. The affordable housing community will be part of the mixed-use Mercado del Barrio Project, and will be restricted to families earning 30 to 60 percent of the area median income.

Vacancy Rate and Average Rent by Age of Apartment for Chula Vista/Imperia Beach



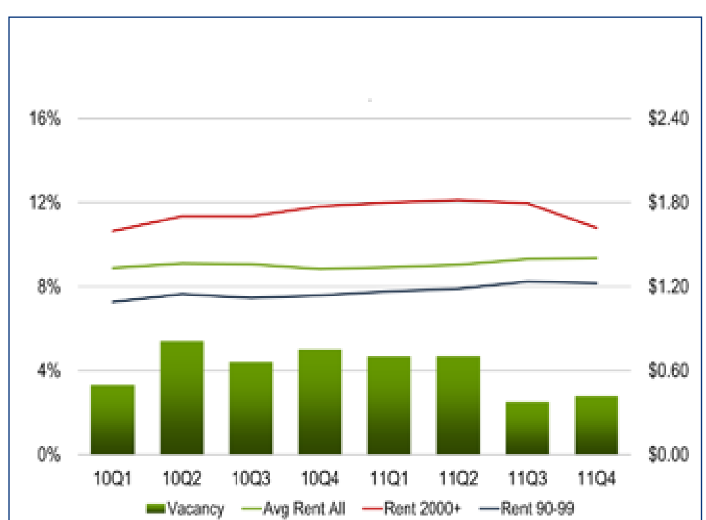
Source: MPF Research

New Supply and Net Absorption for Chula Vista/Imperia Beach



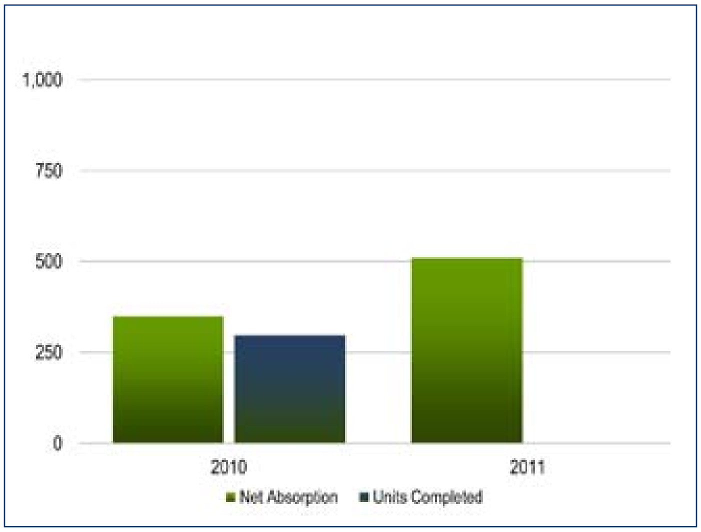
Source: MPF Research

Vacancy Rate and Average Rent by Age of Apartment for El Cajon



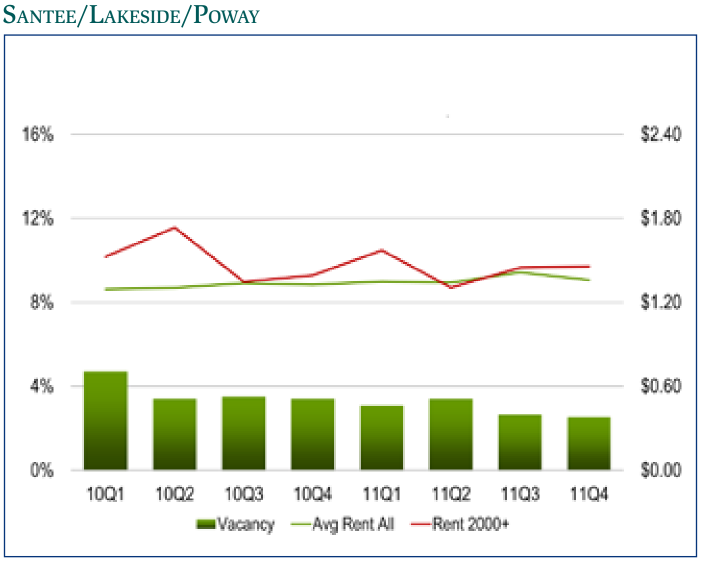
Source: MPF Research

New Supply and Net Absorption for El Cajon



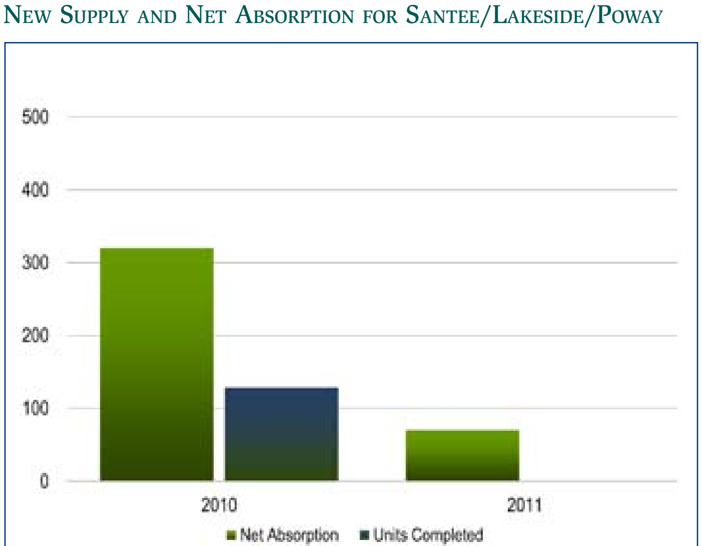
Source: MPF Research

Vacancy Rate and Average Rent by Age of Apartment for Santee/Lakeside/Poway



Source: MPF Research

New Supply and Net Absorption for Santee/Lakeside/Poway



Source: MPF Research

Inland San Diego

The Inland San Diego area consists of the El Cajon and Santee/Lakeside/Poway submarkets. Between the two, El Cajon was generally the stronger performer. On the demand side, El Cajon recorded 510 net move-ins to bring the occupancy rate up 2.2 percentage points. The submarket ended the year at 97.2 percent occupancy. Lakeside/Santee/Poway logged 70 net move-ins and subsequently witnessed an 0.9 percentage-point increase in occupancy. El Cajon and Lakeside/Santee/Poway ended the year at 97.2 and 97.5 percent occupancy, respectively.

After experiencing negative rent growth in 2010, El Cajon bounced back in 2011 with a 5.9 percent increase in average rents and a 2.2 percent increase in same-store rents. The average rent per square foot stood at $1.40 at the end of 2011, while the average monthly rent stood at $1,130. For the second year in a row, Santee/Lakeside/Poway logged increases in both average and same store rents. At 2.6 percent, average rent growth fell slightly short of El Cajon's performance. Same-store rent growth, on the other hand, exceeded El Cajon slightly at 2.5 percent. The average rent per square foot and average monthly rent ended the year at $1.36 and $1,170, respectively.

In 2011, neither El Cajon nor Lakeside/Santee/Poway received any new supply. In 2012, Lakeside/Santee/Poway is slated to receive 77 new units via San Diego Interfaith Housing's Brighton Place in Poway.

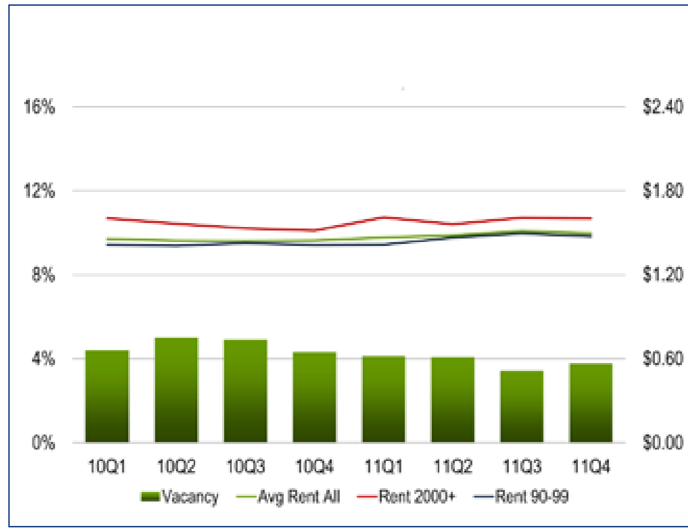
North County

The North County submarket includes Carlsbad and Oceanside on the west and extends east to San Marcos and north to Fallbrook. After a very strong showing in 2010, the submarket was firmly in the middle of the pack in both demand and rent changes in 2011. The area logged 160 net move-ins, bringing the occupancy rate up 0.5 percent to 96.2 percent. In spite of the increase in demand, the North County submarket ended the year with the third-lowest occupancy rate among San Diego submarkets.

Average rents grew 3.5 percent to $1.50, while same-store rents grew 2.5 percent. The average monthly rent stood at $1,323 at the end of 2011.

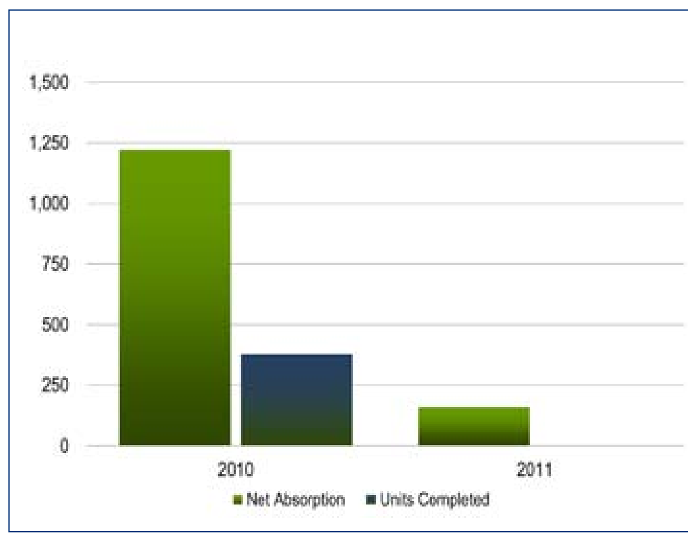
No projects were completed in 2011, and no additional deliveries are anticipated for 2012.

Vacancy Rate and Average Rent by Age of Apartment for North County



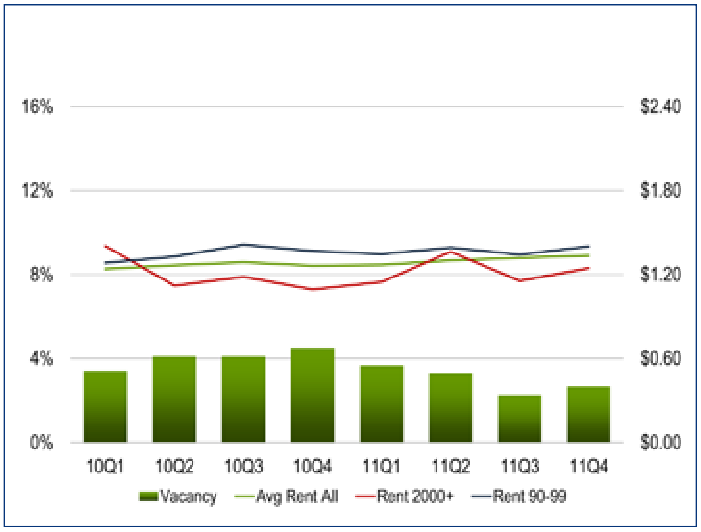
Source: MPF Research

New Supply and Net Absorption for North County



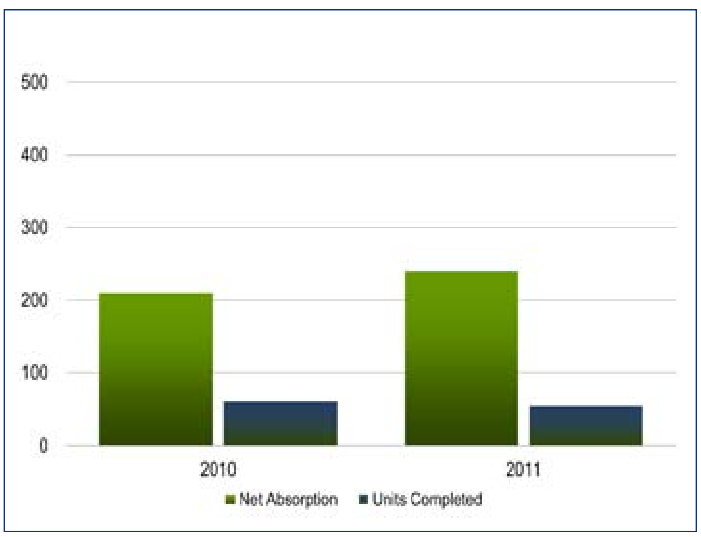
Source: MPF Research

Vacancy Rate and Average Rent by Age of Apartment for Escondido



Source: MPF Research

New Supply and Net Absorption for Escondido



Source: MPF Research

Escondido

The Escondido submarket recorded 240 net move-ins for 2011, up 14 percent from 2010 levels. Occupancy increased 1.8 percentage points to 97.3 percent. Average rent per square foot finished the year at $1.34, up 5.7 percent. Escondido is tied with Lemon Grove/National City submarket as the most affordable among San Diego submarkets discussed in the report. Escondido tied with Northwest San Diego/Encinitas for strongest same-store rent growth, with an increase of 4.7 percent. At the end of 2011, average monthly rents were $1,077.

Escondido added 55 units of new supply in 2011. In July, Urban Housing Communities finished its affordable housing development, the Crossings at Escondido. No additional completions are anticipated for 2012.

San Diego County experienced positive demand for apartments for the third year in a row, logging 4,070 net move-ins. This figure represents an increase of 19 percent over the 2010 level of net absorption. Average rents grew by 4.3 percent to $1.59 per square foot, while same-store rents rose by 2.8 percent. The strongest average rent increases were posted in the Intown/Coronado and West San Diego submarkets (10.4 percent and 6.8 percent, respectively). West San Diego also posted the strongest gain in same-store rents, with a 5.5 percent increase.

Multifamily Market Forecast

All four multifamily metro markets experienced a turnaround in 2011, with strongly increasing rents and declining vacancy. Over the next year, we expect the trend to continue at varying paces across all four markets. From Q4 2012 to Q4 2013, we expect the improvements to slow and vacancy to creep up in some areas as the pace of construction returns to more typical levels.

Los Angeles was the top performer in 2011 with an average rent increase of 6.2 percent. We anticipate that pace of improvement to continue for 2012, but then slow for 2013. We expected the remaining three metro areas to log relatively similar performance over the next year, with growth rates between 3 and 3.4 percent. In 2013, we expect Orange County and San Diego to record another two percent rent growth; the Inland Empire will lag a bit behind. At the moment, Los Angeles, Orange County, and the Inland Empire have vacancy rates between 0.5 and 1.5 percent above their historical averages from 2002-2007, so under improving economic conditions, there is room for improvement in vacancy. San Diego has already surpassed its average historical vacancy rate, so the opportunity for improvement is more limited, barring a significant positive economic shock to the area

Overall, the future health of the multifamily market will be dependent upon several factors:

The employment picture. During the last half of 2011 and first months of 2012, the US as a whole witnessed very strong job creation. Unfortunately, Southern California has not matched the pace of the US job creation as a whole (relative to its size) and has, in fact, seen substantial job losses in the first months of 2012. The purchasing power of households, as determined by their employment situation, will have a strong impact on multifamily rents and will determine whether households choose to live with parents, live alone in an apartment, or double-up with other households.

Home prices. Home affordability is still bleak in Orange County and San Diego, which bodes well for the multifamily market in these areas. In areas such as the Inland Empire, however, high foreclosure rates have led to price declines that now make purchasing a home an attractive option to well-capitalized renters. The recent loosening of credit markets will encourage the transition to homeownership in affordable areas even more. Indeed, housing transactions have risen in recent months. The question that remains is whether there will be enough of a pipeline of young renters with new jobs coming into the market to fill the holes left by renters leaving apartments for homeownership.

Shadow market inventory. Residential rental inventory grew tremendously during 2008 and 2009 when homeowners looking to move found themselves unable to sell or unwilling to take a large hit to their equity. The increase in competition put significant downward pressure on rents in traditional multifamily product. Going forward, the impact of shadow market inventory is expected to be very different across the four metro areas discussed in this report. In Orange County and San Diego, shadow market rentals are not expected to have much impact on the multifamily market. The inventory is believed to be relatively small, and not competitively priced versus traditional multifamily product. In the Inland Empire, shadow market inventory is believed to be a more serious threat to the traditional multifamily market. It is also believed that speculators are buying up much of the distressed inventory in the area and are attempting to rent the units out as they wait for home prices to improve. If this is indeed the case, the shadow market may be putting significant downward pressure on rents and occupancy in that area.

Construction activity. Completions took another tumble in 2011, due in part to deteriorating market fundamentals in 2008-2009, and in part to the freezing of the market for construction loans. Orange County and San Diego took the biggest hits to supply, witnessing declines in deliveries of 92 and 84 percent, respectively. These incredible declines in supply will no doubt put upward pressure on rents and occupancy in the existing stock. In 2012, however, the Irvine submarket is expected to receive 2,800 new units. Sluggishness in the labor market could spell trouble for lease-up of the newly constructed units, and raise vacancy significantly for that submarket, if not Orange County as a whole. In the Inland Empire and San Diego County, most of the completions for 2011 and expected completions for 2012 are age- or income-restricted developments, so we could see some upward movement in those areas' market-rate, non-age-restricted product.

Rising Oil Prices. Oil/gasoline prices have risen sharply over the last several months, and with no end in sight to the political turmoil in the Middle East, the upward trend is likely to continue. Rising gasoline prices should generate higher demand for multifamily product closer to the economic centers of Southern California. Farther-flung submarkets such as the Antelope Valley of Los Angeles or Outer Riverside/San Bernardino may see declining rents as residents move closer to their workplaces and attempt to lessen the cost of their commute.

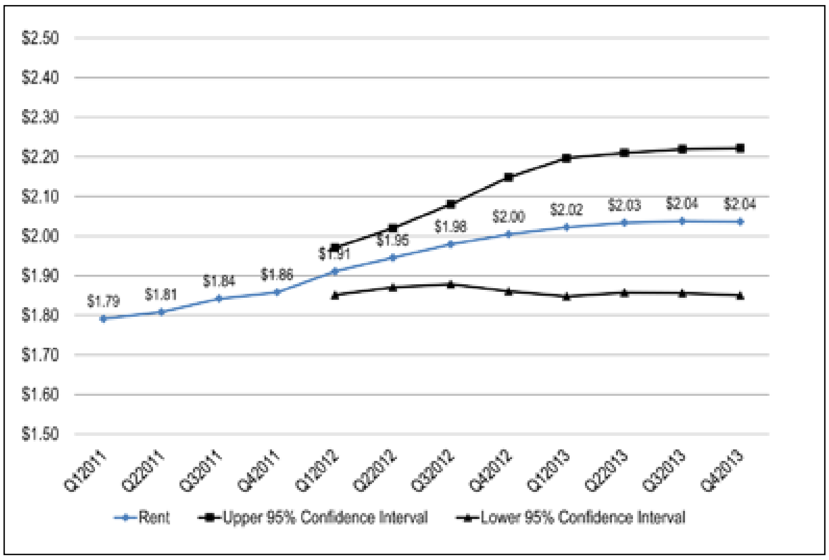
In summary, the interplay of these five factors will guide the future path of rents and vacancies. If Southern California follows the path of the nation as a whole in its macroeconomic recovery, we should continue to see strong performance in the multifamily sector. Should the area witness a hiccup in employment, or a sharp increase in supply in the next two years, or even more attractive conditions for homebuying, the metro markets could take a significantly different turn.

A Note on Confidence Intervals

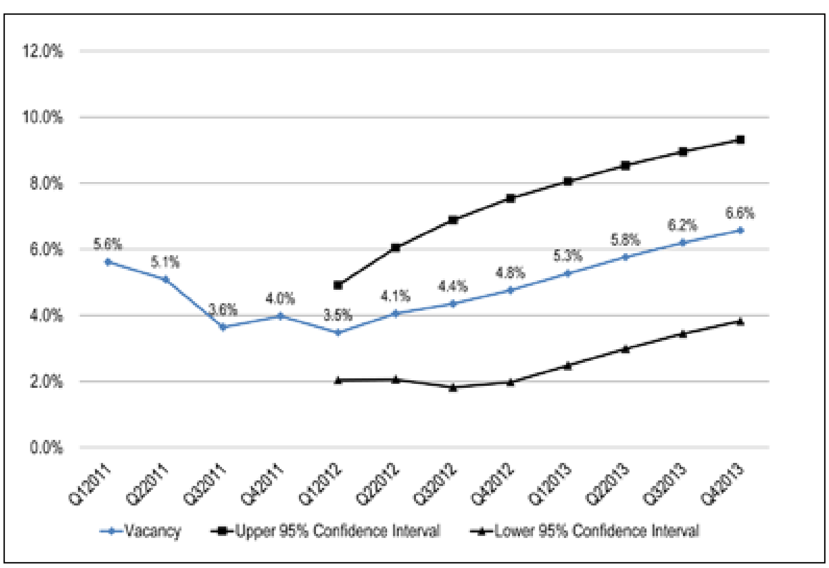
For the second year in a row, the Casden Forecast is reporting 95 percent confidence intervals on our forecast estimates. These intervals, depicted in the forecast graphs by black lines, represent the upper and lower bounds between which the "true" rent or vacancy rate is likely to fall with 95 percent probability. As the reader will observe, the confidence intervals are relatively narrow for Q1 and Q2 2012 and get wider as we move further into the future. In other words, accurately predicting the next quarter or two of rent is relatively easy; predicting beyond that with much precision is difficult. So even though we can rank the four metro areas in terms of the trends in the actual forecast estimates, the true realization may paint a very different picture.

Los Angeles Forecast

Forecast Average Rents for Los Angeles



Forecast Vacancy Rates for Los Angeles



The positives

- Renters have been moving out of shadow market inventory and back into traditional multifamily product. Although much of this has been by necessity -- due to foreclosures or sales of the shadow market properties -- many households simply have discovered that they prefer the amenities and lifestyle associated with living in traditional multifamily units. This trend is expected to continue through 2012.
- Completions were down 53 percent from 2011, to 2,483 units, and completions are expected to remain at that level for 2012. Only 32 of the units under construction are part of condominium re-positioning projects.

The negatives

- Per MPF Research, 35,000 to 40,000 jobs are expected to be created in 2012, but at the moment, the County has a large hole to dig itself out of based on the job losses already incurred in the first months of 2012.
- Home prices continue to fall and transactions are up. As a result, the Los Angeles County multifamily market may lose its most creditworthy renters to home purchases.

Other notes

The Intown submarket is expected to see the largest growth in supply at 0.5 percent. Hollywood is expected to come in second, with 0.4 percent growth in supply. The anticipated growth in supply for the metro area as a whole is 0.2 percent.

What the econometric model predicts

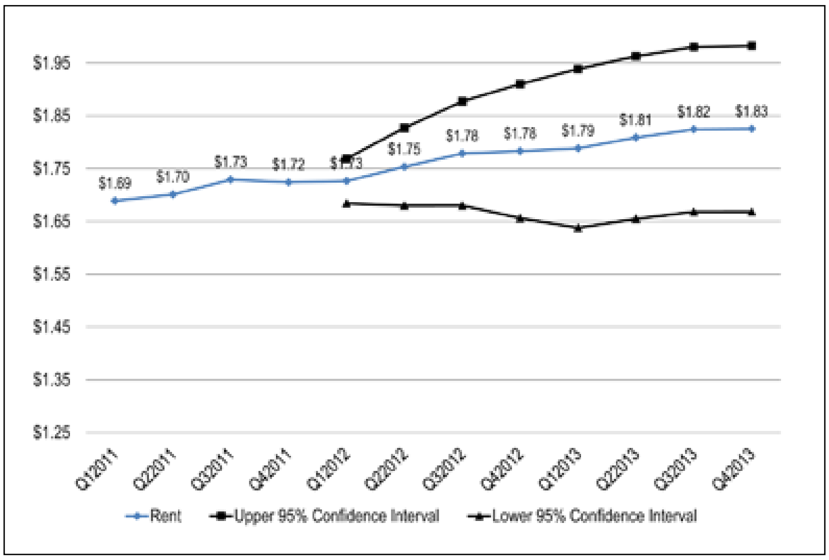
Our econometric modeling techniques report an increase in average rents of about 7.9 percent for 2012, and total growth of 9.6 percent through the end of 2013. Rents are expected to finish 2012 around $2.00 per square foot and 2013 around $2.04 per square foot. During 2012, vacancy could rise as much as 0.7 percentage points, and rise further in 2013 as rent growth slows.

Our "take"

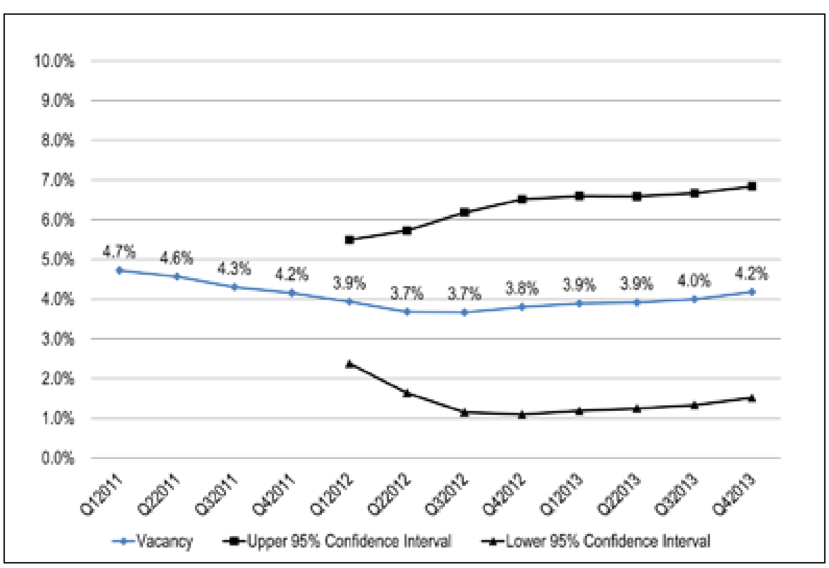
Although in the historical rent and vacancy series for Los Angeles, we do witness short periods of simultaneous rent and vacancy growth, such simultaneous upward movement is not sustainable in the long run. It should be noted that the average rents presented in the trends attempt to represent landlords' current rent structure (incorporating concessions) and exclude the impact of leases signed in previous quarters, so we should not see much of a lag between increases in vacancy and downward adjustment of rents. In the end, much will depend upon the employment picture and completions over the next two years. Completions will remain low relative to historic norms, keeping rents supported, but the benefits could get eaten away by a sluggish job picture. Although the rest of the nation has been generating jobs at a pre-recession pace, Los Angeles County has already recorded 20,000 seasonally-adjusted job losses in the first two months of 2012. With vacancy at 0.8 percentage points above the 2002-2007 average, there is room for improvement under stable-to-positive economic conditions, but the local economic picture is not looking good at the moment.

Orange County Forecast

Forecast Average Rents for Orange County



Forecast Vacancy Rates for Orange County



The positives

- Home prices are the least affordable in Southern California by a wide margin. Any decline in home prices should not have much of an impact on multifamily demand or rents, at least in the short run.
- Shadow market competition is believed to be low and will remain so for the coming year.

The negatives

- According to MPF Research, the area is expected to see the creation of 20,000 to 25,000 new jobs in 2012, but like Los Angeles, the County has started out the year in negative territory.
- Nearly 3,000 new units are expected to be delivered to the Orange County market in 2012 (a ten-fold increase over 2011), but these units are confined almost entirely to the Irvine submarket. Only Irvine (or "competitor" submarkets) should see an impact from these deliveries.

Other notes

Irvine is expected to see the largest growth in supply among submarkets, with expansion of 7.3 percent. The metro level stock is expected to increase by 1.3 percent overall.

What the econometric model predicts

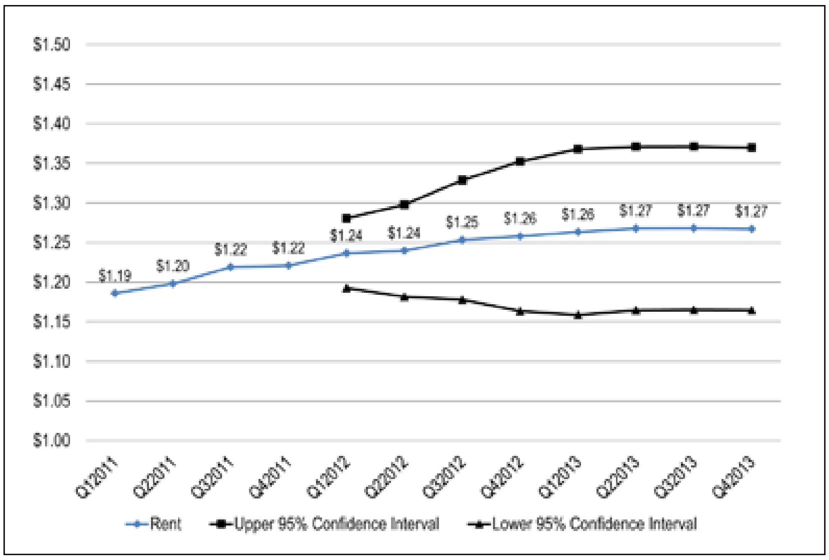
Our econometric modeling techniques report an increase in average rents of about 3.3 percent for 2012, and total growth of 5.1 percent through the end of 2013. Rents are expected to finish 2012 around $1.78 per square foot and 2013 around $1.83 per square foot. Vacancy is expected to remain relatively stable during this time.

Our "take"

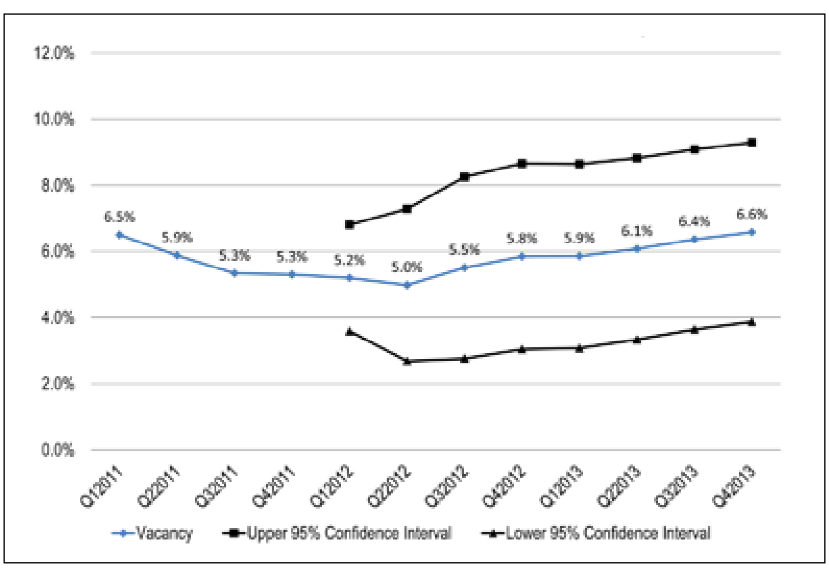
Orange County vacancy stands at about 0.4 percentage points above its historical average from 2002-2007, indicating room for improvement in vacancy under positive economic conditions. Like Los Angeles, the two biggest factors influencing the multifamily market are likely to be construction completions and employment growth. After a record-low year for completions, the multifamily stock is expected to increase substantially in 2012. Out of the 2883 units scheduled for completion in 2012, 1677 of these are expected to come on line simultaneously in October in Irvine Communities' Cypress Village. It would be quite surprising if this bump in supply did not generate a rise in vacancy around the time of completion even in the best of economic conditions. In the first eight months of the year, only 333 units are expected to come online, which bodes well for rents and vacancy rates in the county during that period. On the economic front, Orange County has also seen seasonally-adjusted job losses in the first two months of 2012 – fewer than Los Angeles, though, on an absolute and relative basis. If the employment picture does not turn around in the next two-to-three months, we should expect rising vacancy and much slower growth in rents.

Inland Empire Forecast

Forecast Average Rents for Inland Empire



Forecast Vacancy Rates for Inland Empire



The positives

- Completions are expected to fall for the second year in a row, to about 22 percent of their 2010 level
- All of the expected completions are age- or income-restricted projects, which cater well to the economic struggles of the area. No completions of market-rate product will help support rents and occupancy in that product type.

The negatives

- Per MPF Research, the area is expected to add 10,000 to 15,000 new jobs in 2012. But job creation in 2012 is currently behind the pace predicted by labor economists.
- Home prices are down slightly for 2011 and remain the most affordable in Southern California by a large margin. Improvements in the job picture could tip the scales in favor of purchasing a home rather than continuing to rent.
- Many of the homes sold in 2008-2010 went to investors who have put them back into the shadow-market rental pool while they wait for home prices to improve.

Other notes

The Southwest Riverside Submarket is expected to see the largest relative increase in supply, with expansion of 0.7 percent. The metro market as a whole is anticipating a 0.3 percent increase in supply.

What the econometric model predicts

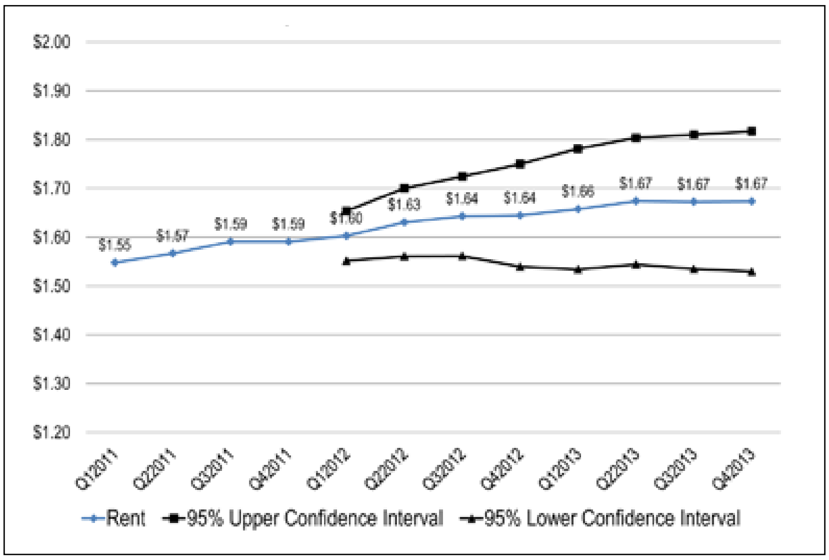
Our econometric modeling techniques report an increase in average rents of about 3.0 percent in 2012 and 3.8 percent total through the end of 2013. Rents are expected to finish 2012 around $1.26 per square foot and 2013 around $1.27 per square foot. Vacancy is expected to fall initially, and then rise by as much as 1.2 percentage points as rent growth begins to slow.

Our "take"

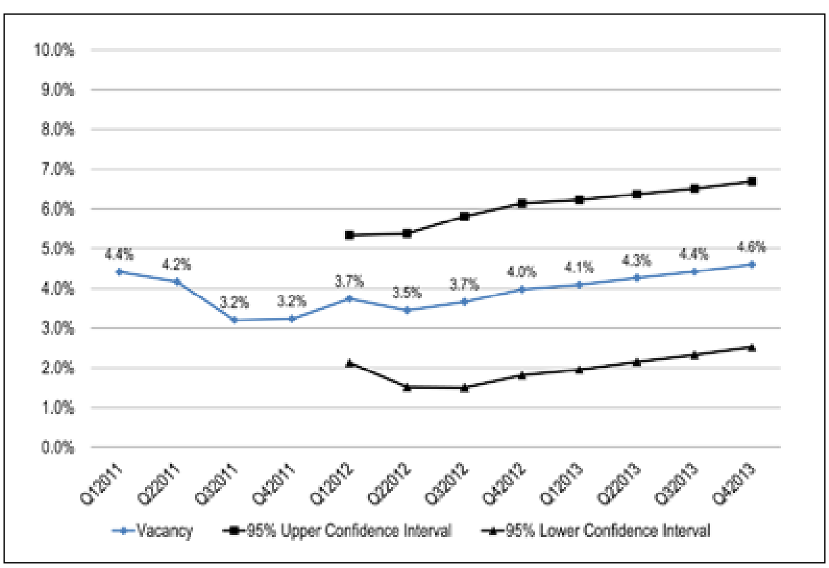
The Inland Empire, which was decimated by the economic downturn, remains the weakest market in terms of current rent and vacancy conditions, as well as expected future performance. With a vacancy rate at 1.3 percentage points above its historic 2002-2007 average, the area shows great opportunity for improvement under the right conditions. Unlike the other metro markets, the movement of home prices and shadow market inventory are expected to have a major impact on traditional multifamily vacancy and rents. With the housing market so slow to recover, investors in distressed housing have finally resorted to renting out their units in an attempt to generate cash flow. The longer it takes for housing prices to bounce back, the longer the shadow market inventory will play a negative role in the traditional multifamily market. On the construction side, the Inland Empire is the only metro market expecting a significant decline in completions for 2012. The 450 units expected for delivery represent a decline of 32 percent from 2011. The region has typically been a popular location for builders, and annual deliveries between 2002 and 2010 have averaged around 2800 units. The slow growth in supply should lead to a drop in vacancy, all else equal. On the employment side, the area has witnessed the creation of about 900 jobs in the first two months of 2012 on a seasonally-adjusted basis. While certainly better than the performance of Los Angeles and Orange County, this figure is off a bit from what labor economists have predicted in annual employment growth for the region. Overall, we expect rents to behave as our model predicts. The vacancy rate should exhibit steady improvement if job creation meets economists' predictions.

San Diego County Forecast

Forecast Average Rents for San Diego



Forecast Vacancy Rates for San Diego



The Positives

- Completions will increase four-fold over 2011, but will remain about one-third below historic annual averages. Chula Vista/Imperial Beach submarket (for the second year in a row) is expected to receive the bulk of the 1,583 units expected for delivery, due to the behind-schedule completion of Greenfield Village's Garden Communities project.
- Home affordability is the second lowest in Southern California, keeping renters out of the homebuying market.
- Competition from shadow-market supply is low.

The Negatives

- Per MPF Research, the San Diego submarket is expected to add 20,000 to 25,000 jobs in 2012, but like all of the other metro markets, it has already witnessed job losses in the first months of the year.

Other Notes

- Chula Vista/Imperial Beach is expecting growth in supply of 2.4 percent, which is significantly greater than the 0.6 percent growth in supply at the metro level.

What the econometric model predicts:

Our econometric modeling techniques report an increase in average rents of about 3.4 percent in 2012 and 5.2 percent total through the end of 2013. Rents are expected to finish 2012 around $1.64 per square foot and 2013 around $1.67 per square foot. Vacancy is expected to fall initially, and then rise by as much as 1.4 percentage points as rent growth begins to slow.

Our "take"

The San Diego area is the only metro market with a vacancy rate below its historic average for 2002-2007, leaving little room for improvement except under very strong economic conditions. Like Orange County, completions are expected to rebound in 2012, but only to about two-thirds the annual average level from 2002-2010. Although economists expect the addition of 20,000 to 25,000 jobs in 2012, the area is already showing losses of 1900 nonfarm jobs on a seasonally-adjusted basis. One additional factor to consider that is unique to the San Diego market is the housing demand of military families. Although San Diego County is home to one percent of the US population, it is home to eight percent of the nation's military personnel. About 70 percent of military personnel participate in the Basic Allowance for Housing (BAH) program, which offers an allowance (based on local housing costs) for living in local, non-government housing. Cuts in the BAH, or cuts to defense spending more generally, will no doubt have a strong impact on the San Diego multifamily market.

Technical Notes

Multifamily Data

Inventory: The MPF Research apartment survey includes rental properties that are attached dwellings with five or more units. For the most part, these are traditional apartment communities.

Absorption/Demand: Absorption, or demand, is defined as the increase in physically occupied units (existing units multiplied by the occupancy rate) from one period to another. Absorption calculations in this report exclude preleasing to avoid double counting residents now occupying units and simultaneously preleasing other units.

Absorption of New Completions: Frequently, management of apartment communities under construction will begin leasing units as they are finished out. For consistency purposes, units are not counted as absorbed until the period that the entire property is completed. Thus, absorption will tend to be somewhat undercounted in the periods preceding completion of the property.

Completions: MPF Research collects construction permit data each quarter from all of the municipalities in the metropolitan area. Developers or contractors are called to verify the number of units and the month when all units are expected to be completed.

Occupancy: Occupancy reflects the share of the existing stock physically occupied at any point in time. Preleased units are not part of the occupancy calculation.

Rental Rates: The rental rates presented reflect a property's rent structure at the point of time of the survey, rather than the property's actual revenues (which would be shaped by rents in place when ongoing leases were signed). Unless noted otherwise, all rents are effective rates, to the degree possible. Thus, the impact of concessions that include free rent periods or discounts over the term of the lease, are calculated into the rent structure.

Same-Store Rent Growth: This measure compares rents for the same specific group of properties between two points in time, thus gauging the typical performance for an apartment community operating during that time frame. Examination of same-store rent change eliminates the misrepresentation of market conditions that can result from sampling differences in two reporting periods.

Overall Disclaimer

Some of the data in this report has been gathered from third party sources and has not been independently verified. Neither MPF Research nor the Casden Forecast make any warranties or representations as to the completeness or accuracy thereof.

2011 Market Snapshots

1. Intown Los Angeles (7%)
2. Hollywood (17%)
3. West Los Angeles (13%)
4. South Bay Cities (7%)
5. Long Beach (7%)
6. Tri Cities (12%)
7. San Fernando Valley (13%)
8. Santa Clarita Valley (2%)
9. San Gabriel Valley (5%)
10. East Los Angeles (15%)
11. Antelope Valley (2%)

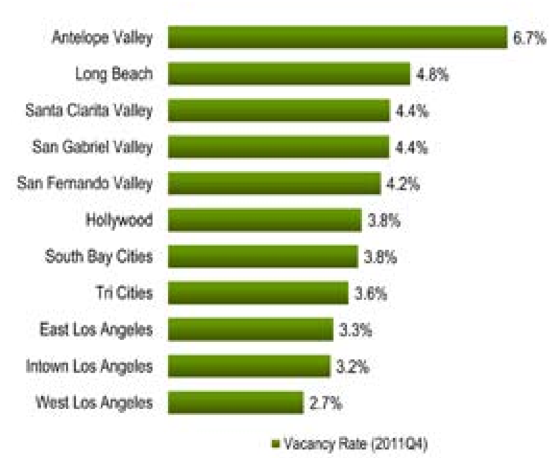
Market Snapshot Los Angeles

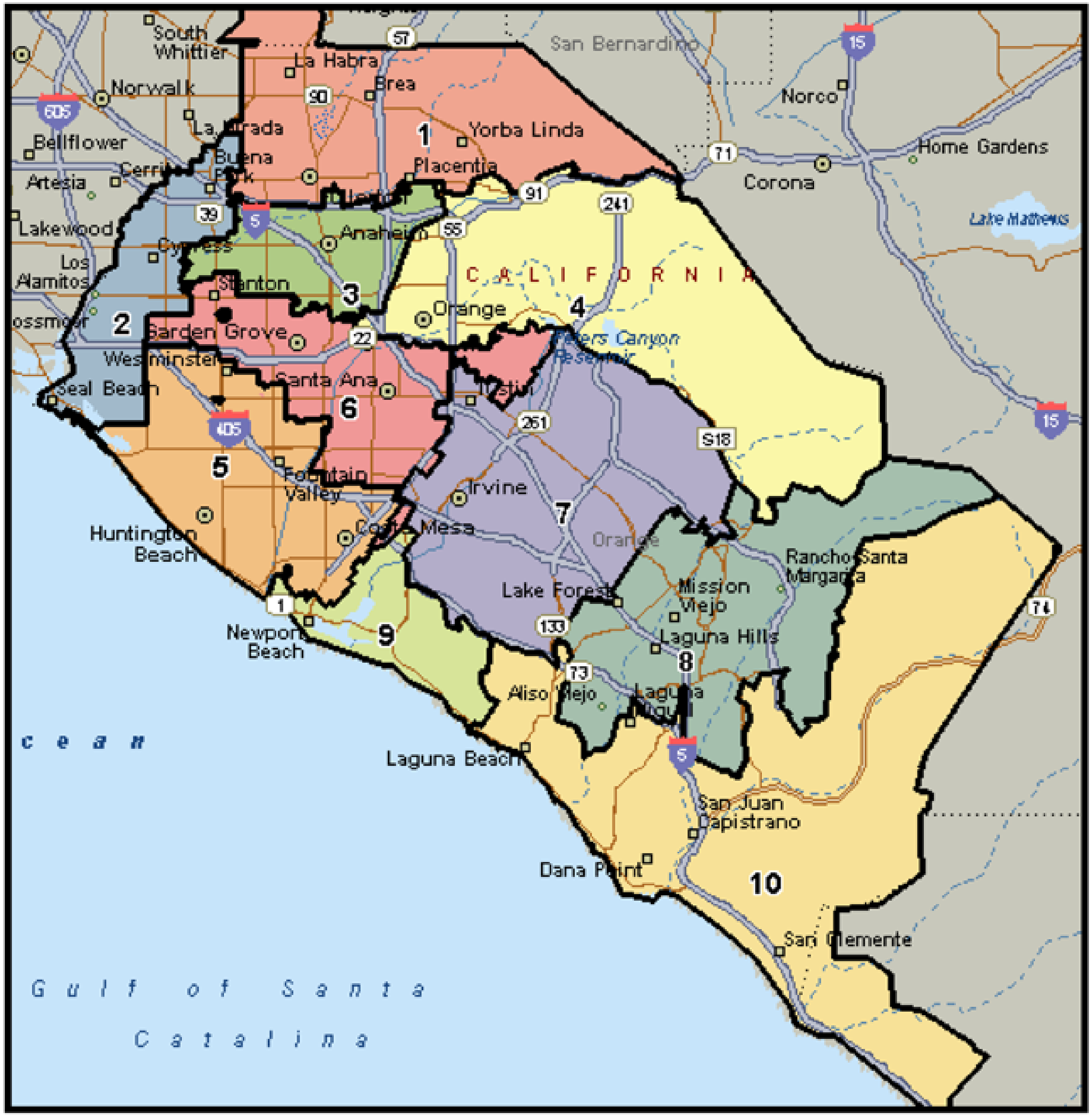
Average Monthly Rent	1-BR	2-BR	3-BR	Total	Change in Ave. Rent	Same-Store Rent Growth	New Supply Annual Units Completed	
	Q4 2011				2010-11	2011	2011	2012 (est.)
Intown Los Angeles	$1,727	$2,408	$2,076	$1,938	6.0%	2.5%	537	374
Hollywood	$1,521	$2,200	$3,268	$1,780	8.1%	5.6%	180	446
West Los Angeles	$1,940	$2,890	$4,565	$2,334	11.5%	7.1%	170	626
South Bay Cities	$1,530	$1,814	$2,349	$1,687	3.6%	6.3%	49	0
Long Beach	$1,190	$1,549	$1,733	$1,342	2.8%	1.4%	185	200
Tri Cities	$1,445	$1,973	$1,907	$1,643	6.3%	3.6%	555	45
San Fernando Valley	$1,230	$1,698	$2,158	$1,440	3.4%	3.9%	398	509
Santa Clarita Valley	$1,228	$1,524	$1,820	$1,465	3.0%	3.6%	0	0
San Gabriel Valley	$1,076	$1,343	$1,607	$1,241	3.2%	3.3%	74	68
East Los Angeles	$1,081	$1,416	$1,699	$1,266	1.2%	0.7%	335	107
Antelope Valley	$735	$835	$989	$820	1.7%	2.4%	0	0
Los Angeles County	$1,405	$1,797	$2,126	$1,596	6.2%	4.3%	2,483	2,375

Average Rent PSF / Average Gross Occupancy	Current Qtr Q4 2011		Previous Qtr Q3 2011		1 Year Ago Q4 2010		Net Absorption Annual Units Absorbed 2011	2010
Intown Los Angeles	$2.28	96.8%	$2.28	97.3%	$2.15	91.5%	4,340	(1,900)
Hollywood	$2.13	96.2%	$2.10	96.6%	$1.97	93.7%	4,750	(1,620)
West Los Angeles	$2.57	97.3%	$2.53	96.7%	$2.30	96.3%	1,630	2,450
South Bay Cities	$1.87	96.2%	$1.81	96.7%	$1.81	95.3%	770	2,480
Long Beach	$1.66	95.2%	$1.68	96.4%	$1.61	94.2%	900	1,190
Tri Cities	$1.96	96.4%	$1.96	97.4%	$1.85	95.2%	2,040	390
San Fernando Valley	$1.71	95.8%	$1.69	96.1%	$1.66	94.7%	1,830	1,290
Santa Clarita Valley	$1.56	95.6%	$1.56	96.2%	$1.51	91.4%	750	(30)
San Gabriel Valley	$1.48	95.6%	$1.45	96.2%	$1.43	95.0%	410	370
East Los Angeles	$1.49	96.7%	$1.49	96.0%	$1.48	94.1%	4,440	1,660
Antelope Valley	$0.97	93.3%	$0.99	93.4%	$0.95	90.6%	490	20
Los Angeles County	$1.86	96.0%	$1.84	96.4%	$1.75	94.1%	22,340	6,290

Average Rents for LA Submarkets

Average Vacancy Rates for LA Submarkets





1.	North Orange County (11%)
2.	Buena Park (5%)
3.	Anaheim (15%)
4.	Central Orange County (4%)
5.	Huntington Beach (16%)
6.	Santa Ana (15%)
7.	Irvine (17%)
8.	Mission Viejo (8%)
9.	Newport Beach (4%)
10.	South Orange County (5%)

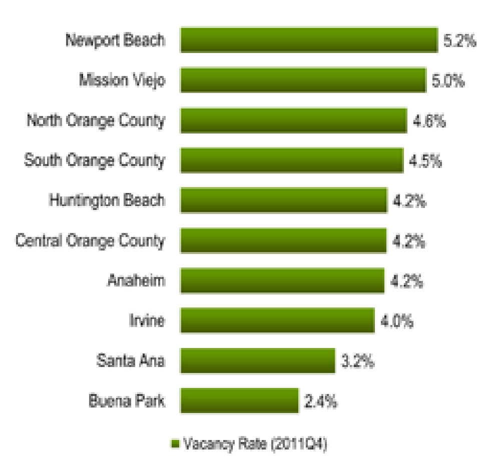
Market Snapshot Orange County

Average Monthly Rent	1-BR	2-BR	3-BR	Total	Change in Ave. Rent	Same-Store Rent Growth	New Supply Annual Units Completed	
	Q4 2011				2010-11	2011	2011	2012 (est.)
North Orange County	$1,148	$1,521	$1,772	$1,326	1.3%	2.3%	94	0
Buena Park	$1,164	$1,426	$1,724	$1,325	1.0%	3.8%	0	0
Anaheim	$1,124	$1,463	$1,902	$1,318	3.0%	4.8%	46	93
Central Orange County	$1,286	$1,552	$1,992	$1,456	1.0%	2.4%	0	0
Huntington Beach	$1,298	$1,599	$1,932	$1,454	3.9%	3.4%	36	0
Santa Ana	$1,164	$1,477	$1,719	$1,338	5.0%	4.4%	0	0
Irvine	$1,503	$1,896	$2,498	$1,782	4.9%	7.2%	87	2,790
Mission Viejo	$1,297	$1,639	$2,220	$1,503	2.5%	3.3%	0	0
Newport Beach	$1,668	$2,325	$3,223	$2,112	2.1%	7.2%	0	0
South Orange County	$1,421	$1,702	$2,088	$1,608	5.0%	5.8%	0	0
Orange County	$1,297	$1,665	$2,235	$1,523	3.2%	4.9%	263	2,883

Average Rent PSF	Current Qtr		Previous Qtr		1 Year Ago		Net Absorption Annual Units Absorbed	
Average Gross Occupancy	Q4 2011		Q3 2011		Q4 2010		2011	2010
North Orange County	$1.60	95.4%	$1.60	94.2%	$1.58	93.8%	440	370
Buena Park	$1.60	97.6%	$1.58	97.7%	$1.58	96.9%	80	240
Anaheim	$1.53	95.8%	$1.52	95.8%	$1.48	94.6%	410	1,720
Central Orange County	$1.55	95.8%	$1.56	96.1%	$1.54	94.5%	110	(30)
Huntington Beach	$1.69	95.8%	$1.70	95.1%	$1.63	94.5%	460	50
Santa Ana	$1.53	96.8%	$1.53	96.9%	$1.45	94.8%	640	330
Irvine	$1.96	96.0%	$1.96	96.2%	$1.87	95.5%	270	2,930
Mission Viejo	$1.66	95.0%	$1.68	94.9%	$1.62	94.8%	30	(100)
Newport Beach	$2.18	94.8%	$2.18	95.6%	$2.13	96.2%	(150)	290
South Orange County	$1.78	95.5%	$1.79	95.1%	$1.69	95.4%	10	50
Orange County	$1.72	95.8%	$1.73	95.7%	$1.67	94.9%	2,290	5,830

Average Rents for OC Submarkets

Average Vacancy Rates for OC Submarkets



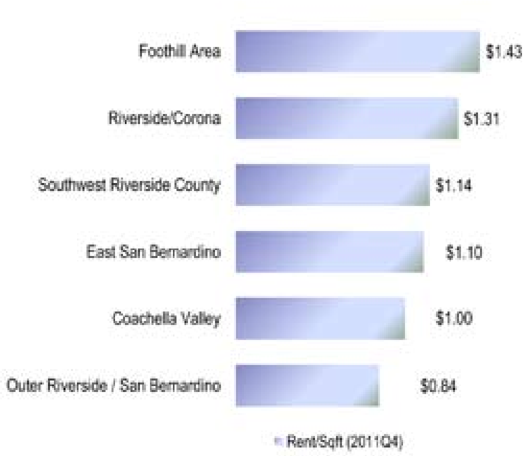
1. Riverside/Corona (18%)
2. East San Bernardino (24%)
3. Southwest Riverside (17%)
4. Foothill Area (19%)
5. Coachella Valley (14%)
6. Outer Riverside/ S. Bern (8%)

Market Snapshot Inland Empire

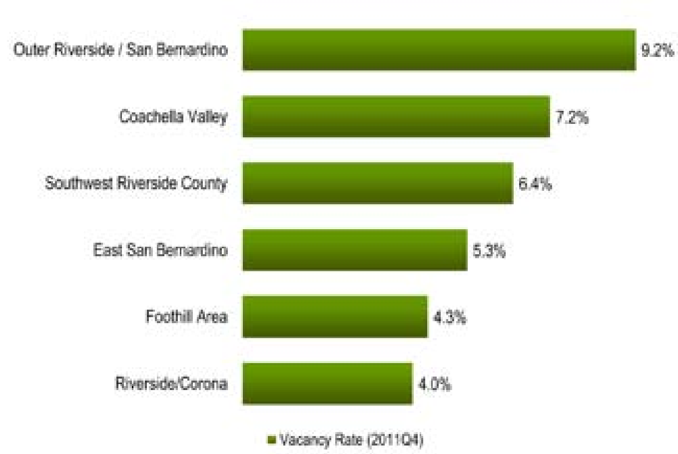
Average Monthly Rent	1-BR	2-BR	3-BR	Total	Change in Ave. Rent	Same-Store Rent Growth	New Supply Annual Units Completed	
	Q4 2011				2010-11	2011	2011	2012 (est.)
Riverside/Corona	$954	$1,178	$1,836	$1,126	5.8%	2.7%	0	0
East San Bernardino	$786	$956	$1,162	$912	4.4%	2.6%	381	0
Southwest Riverside	$876	$1,057	$1,332	$1,022	2.7%	2.1%	20	196
Foothill Area	$1,067	$1,370	$1,750	$1,282	3.5%	3.8%	50	192
Coachella Valley	$795	$989	$988	$911	0.5%	1.6%	116	62
Outer Riverside/S Bernardino	$666	$758	$909	$766	-6.8%	-0.4%	90	0
Total Inland Empire	$919	$1,117	$1,428	$1,069	3.4%	2.8%	657	450

Average Rent PSF	Current Qtr		Previous Qtr		1 Year Ago		Net Absorption Annual Units Absorbed	
Average Gross Occupancy	Q4 2011		Q3 2011		Q4 2010		2011	2010
Riverside/Corona	$1.31	96.0%	$1.30	94.6%	$1.23	95.3%	220	640
East San Bernardino	$1.10	94.7%	$1.09	95.2%	$1.06	94.1%	690	1,320
Southwest Riverside	$1.14	93.6%	$1.16	93.4%	$1.11	91.8%	560	890
Foothill Area	$1.43	95.7%	$1.43	96.1%	$1.39	94.6%	420	630
Coachella Valley	$1.00	92.8%	$0.98	91.5%	$0.99	92.0%	310	510
Outer Riverside/S Bernardino	$0.84	90.8%	$0.88	94.8%	$0.90	93.5%	(250)	290
Total Inland Empire	$1.22	94.7%	$1.22	94.7%	$1.18	93.9%	1,960	4,280

Average Rents for IE Submarkets



Average Vacancy Rates for IE Submarkets



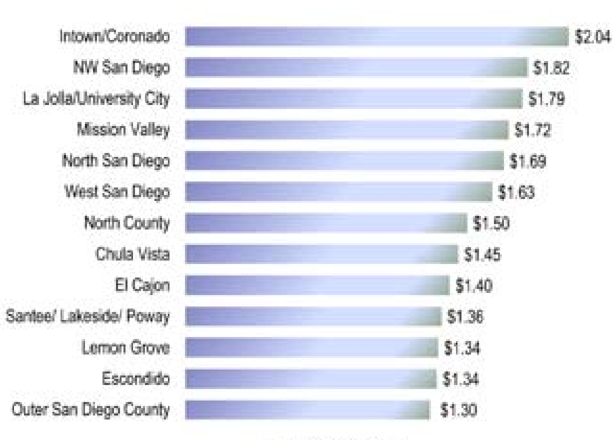
1.	Intown/Coronado (17%)
2.	Mission Valley (9%)
3.	La Jolla (10%)
4.	Lemon Grove (8%)
5.	Chula Vista (10%)
6.	West San Diego (4%)
7.	North San Diego (7%)
8.	NW San Diego (3%)
9.	Escondido (5%)
10.	North County (13%)
11.	Santee/Lakeside/Poway (4%)
12.	El Cajon (10%)

Market Snapshot San Diego

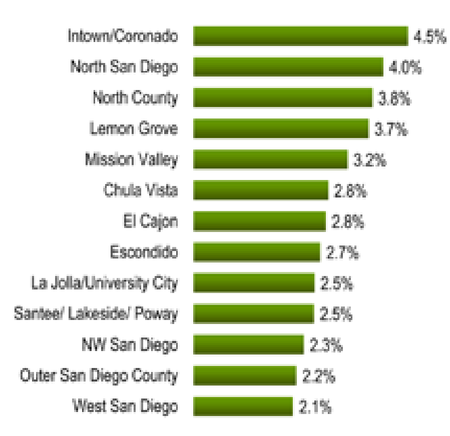
Average Monthly Rent	1-BR	2-BR	3-BR	Total	Change in Ave. Rent	Same-Store Rent Growth	New Supply Units Completed	Annual
	Q4 2011				2010-11	2011	2011	2012 (est.)
Intown/Coronado	$1,377	$1,879	$1,279	$1,484	10.4%	3.3%	222	71
Mission Valley	$1,291	$1,591	$2,236	$1,511	1.2%	4.3%	0	320
La Jolla/University City	$1,433	$1,849	$2,341	$1,661	3.1%	1.2%	0	0
Lemon Grove/National City	$874	$1,179	$1,382	$1,077	1.1%	3.0%	0	92
Chula Vista/Imperial Beach	$1,085	$1,356	$1,606	$1,305	3.6%	4.0%	130	644
West San Diego	$1,096	$1,405	$1,844	$1,287	6.8%	5.5%	0	0
North San Diego	$1,298	$1,573	$1,910	$1,505	2.4%	1.7%	0	379
Northwest San Diego/Encinitas	$1,473	$1,869	$2,326	$1,768	5.9%	4.7%	0	0
Escondido	$935	$1,189	$1,318	$1,077	5.7%	4.7%	55	0
North County	$1,146	$1,366	$1,737	$1,323	3.5%	2.5%	0	0
Santee/Lakeside/Poway	$1,010	$1,202	$1,336	$1,130	2.6%	2.5%	0	77
El Cajon	$1,004	$1,257	$1,507	$1,170	5.9%	2.2%	0	0
San Diego County	$1,193	$1,468	$1,766	$1,377	4.3%	2.8%	407	1,583

Average Rent PSF	Current Qtr		Previous Qtr		1 Year Ago		Net Absorption Units Absorbed	Annual
Average Gross Occupancy	Q4 2011		Q3 2011		Q4 2010		2011	2010
Intown/Coronado	$2.04	95.5%	$1.97	95.5%	$1.85	90.7%	2,010	(770)
Mission Valley	$1.72	96.8%	$1.72	97.5%	$1.70	95.7%	220	420
La Jolla/University City	$1.79	97.5%	$1.77	96.6%	$1.74	97.6%	(40)	230
Lemon Grove/National City	$1.34	96.3%	$1.38	96.0%	$1.33	96.4%	(20)	360
Chula Vista/Imperial Beach	$1.45	97.2%	$1.45	96.8%	$1.40	96.0%	360	530
West San Diego	$1.63	97.9%	$1.61	98.4%	$1.53	95.6%	220	10
North San Diego	$1.69	96.0%	$1.70	96.2%	$1.65	95.3%	120	580
Northwest San Diego/Encinitas	$1.82	97.7%	$1.85	97.1%	$1.72	94.6%	220	(30)
Escondido	$1.34	97.3%	$1.32	97.7%	$1.26	95.5%	240	210
North County	$1.50	96.2%	$1.51	96.6%	$1.45	95.7%	160	1,220
Santee/Lakeside/Poway	$1.36	97.5%	$1.41	97.4%	$1.33	96.6%	70	320
El Cajon	$1.40	97.2%	$1.40	97.5%	$1.33	95.0%	510	350
San Diego County	$1.59	96.8%	$1.59	96.8%	$1.53	95.4%	4,070	3,430

Average Rents for SD Submarkets



Average Vacancy Rates for SD Submarkets



Bios

Richard K. Green | Director | USC Lusk Center for Real Estate

Richard K. Green, Ph.D., is the Director of the USC Lusk Center for Real Estate. He holds the Lusk Chair in Real Estate and is Professor in the School of Policy, Planning, and Development and the Marshall School of Business.

Prior to joining the USC faculty, Dr. Green spent four years as the Oliver T. Carr, Jr., Chair of Real Estate Finance at The George Washington University School of Business. He was Director of the Center for Washington Area Studies and the Center for Real Estate and Urban Studies at that institution. Dr. Green also taught real estate finance and economics courses for 12 years at the University of Wisconsin-Madison, where he was Wangard Faculty Scholar and Chair of Real Estate and Urban Land Economics. He also has been principal economist and director of financial strategy and policy analysis at Freddie Mac. More recently, he was a visiting professor of real estate at the University of Pennsylvania's Wharton School, and he continues to retain an affiliation with Wharton. He is or has been involved with the Lincoln Institute of Land Policy, the Conference of Business Economists, the Center for Urban Land Economics Research, and the National Association of Industrial and Office Properties. Dr. Green also is a Weimer Fellow at the Homer Hoyt Institute, and a member of the faculty of the Selden Institute for Advanced Studies in Real Estate. He was recently President of the American Real Estate and Urban Economics Association.

Dr. Green earned his Ph.D. and M.S. in economics from the University of Wisconsin-Madison. He earned his A.B. in economics from Harvard University.

His research addresses housing markets, housing policy, tax policy, transportation, mortgage finance and urban growth. He is a member of two academic journal editorial boards, and a reviewer for several others. His work is published in a number of journals including the American Economic Review, Journal of Economic Perspectives, Journal of Real Estate Finance and Economics, Journal of Urban Economics, Land Economics, Regional Science and Urban Economics, Real Estate Economics, Housing Policy Debate, Journal of Housing Economics, and Urban Studies. His book with Stephen Malpezzi, A Primer on U.S. Housing Markets and Housing Policy, is used at universities throughout the country. His work has been cited or he has been quoted in the New York Times, The Wall Street Journal, The Washington Post, the Christian Science Monitor, the Los Angeles Times, Newsweek and the Economist, as well as other outlets. He recently gave a presentation at the 31st annual Federal Reserve Bank of Kansas City Economic Symposium, where his work was cited by Federal Reserve Chairman Ben Bernanke. The National Association of REALTORS, the Ford Foundation, and the Lincoln Institute for Land Policy have funded grants to support some of Dr. Green's research. He consults for the World Bank.

Tracey Seslen | Senior Research Associate | USC Casden Real Estate Economics Forecast

Tracey Seslen received her Ph.D. in Economics from the Massachusetts Institute of Technology in 2003 and has been an Assistant Professor of Clinical Finance and Business Economics since 2006. She currently teaches Real Estate Finance in the Marshall School of Business and the School of Policy, Planning, and Development at USC. She is also one of the core finance instructors for the Ross Minority Program in Real Estate. Her past research has focused on housing cycles, the capitalization of risk and return into housing prices, household mobility behavior, and termination risk in commercial mortgages.

For the past year, she has been the co-author of the Casden Real Estate Report and in that role has developed new models for predicting price and vacancy movements for office, industrial and multi-family markets in Southern California. Her expertise in real estate finance has led to quotes in the LA Times, Wall Street Journal, OC Register, LA Business Journal, Long Beach Business Journal, California Real Estate Journal, SmartMoney.com, Downtown News, and other local and national publications. In addition, she has appeared on the Today Show, Marketplace Radio, and various local network news broadcasts. Recently, she has worked as an expert witness on real estate valuation issues.

When not working in the field of real estate, she is an avid international traveler, photographer, and skier. She lives in Marina del Rey with her husband and 3-year-old daughter.

Skye Tirsbier | MBA/MPL Dual Degree Candidate | University of Southern California

Skye Tirsbier is a Master of Business Administration/Master of Planning dual degree candidate at USC. Before attending USC, she worked as a project manager for real estate developer New Urban West in Santa Monica. Skye managed the entitlement process and secured approvals for a large mixed-use community in Southern California. Her academic honors include selection as a Marshall MBA Fellow and an invitation to join Beta Gamma Sigma. After graduation, Skye will be joining SanDisk Corporation in the Bay Area as a Senior Financial Analyst.